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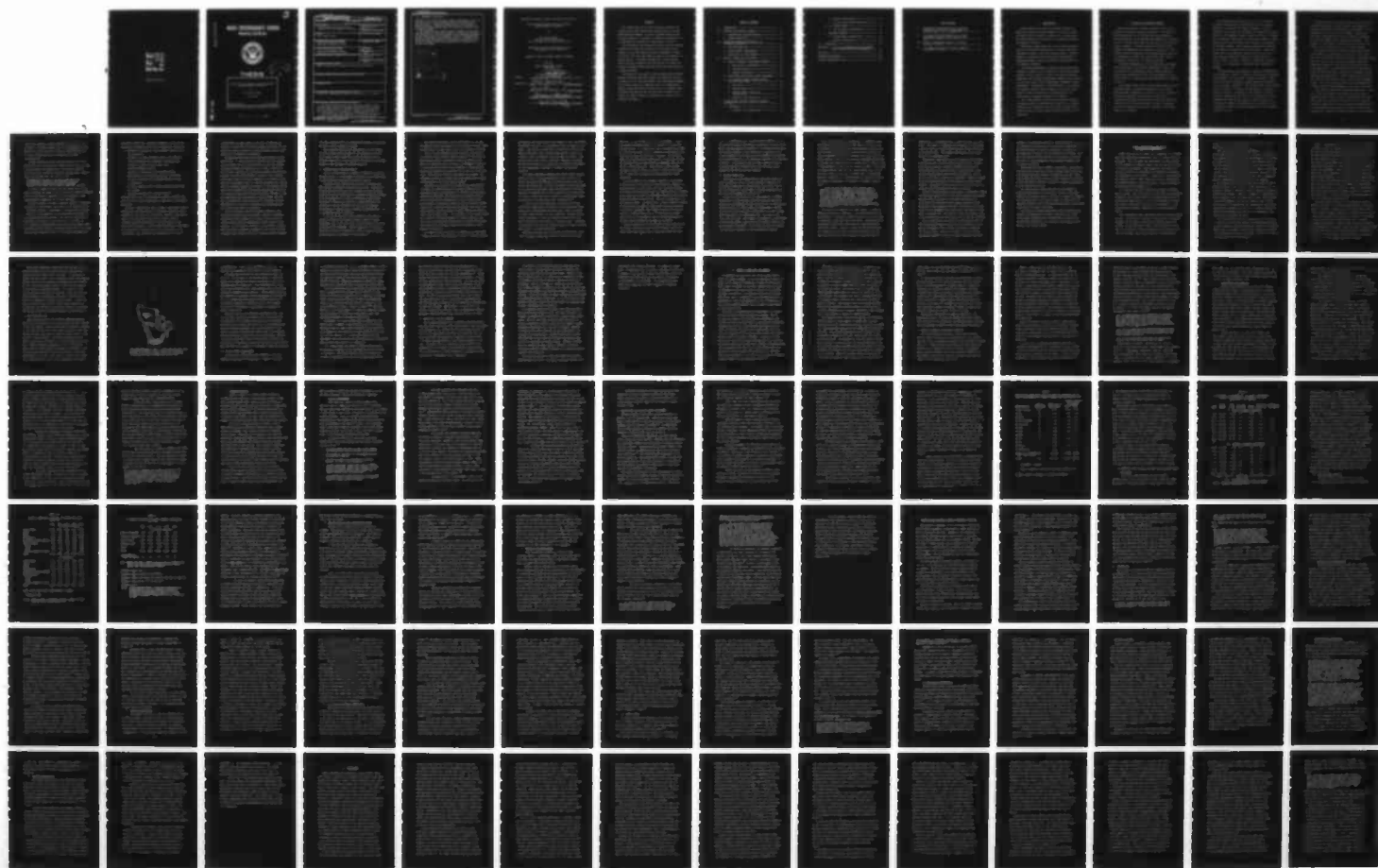
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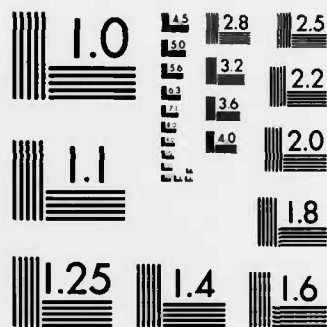
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THESIS

UNITED STATES NATIONAL SECURITY INTERESTS
AND THE REPUBLIC OF MEXICO

by

Eric Efrain Matos

June 1983

Thesis Advisor:

R. E. Looney

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The thesis of this study is that although United States-Mexican relations have been founded on historical ties and the sharing of a 2,000 mile border, the long-term development of the relationship will depend on the U.S. acceptance of Mexico as not just another country, but as a neighbor whose interests and problems must be recognized and dealt with within the scope of mutual interests and in pursuit of U.S. national interests.

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United States National Security Interests
and the Republic of Mexico

by

Eric Efrain Matos
Captain, United States Army
B.B.A., University of Puerto Rico, 1972

Submitted in partial fulfillment of the
requirements for the degree of


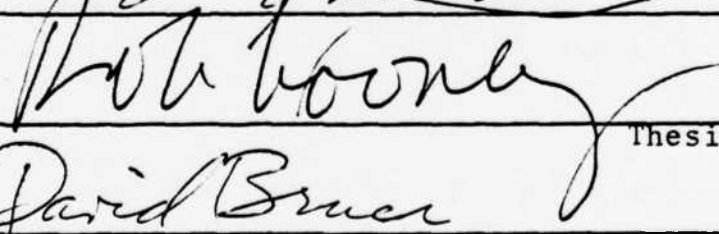
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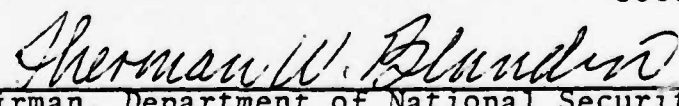
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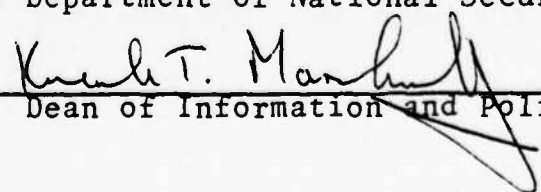
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ABSTRACT

↙ The implications of the term "national interest" have recently been under debate among those involved in foreign policy decision making. The word "interest" derives from the Latin meaning "it concerns, it makes a difference to, it is important with reference to some person or thing."¹

The difficulties and complexity of defining the national interest has caused many analysts of the foreign policy process to turn away from the concept altogether in spite of the fact that the term remains a part of the rhetoric of foreign policy. The basic premise here is that foreign policy should be concerned with the ability to achieve the national interest rather than with any strict definition of a complex concept.

The thesis of this study is that although United States-Mexican relations have been founded on historical ties and the sharing of a 2,000 mile border, the long-term development of the relationship will depend on the U.S. acceptance of Mexico as not just another country, but as a neighbor whose interests and problems must be recognized and dealt with within the scope of mutual interests and in pursuit of U.S. national interests.

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I. INTRODUCTION

United States policy toward the Federal Republic of Mexico has undergone serious changes over the past decade. The recent rise in interest in Mexico by U.S. authorities has been prompted by the discovery of substantial hydrocarbon deposits in Mexico.

Historically Mexico has stood out from most developing nations in the positive sense due to its size, population, government stability, and rapid economic growth. Recently however, the country's high foreign debt has created a dangerous economic crisis with possible repercussions for U.S.-Mexican relations.

The United States hopes to benefit from the petroleum surpluses in Mexico, but in addition to the current Mexican economic crisis, a host of historic and current problems complicate the bilateral relationship between the two nations, not the least being a large immigration (sometimes illegal) from Mexico. Additionally, the differences in the solution to regional problems (Central America) and the fact that Mexico is highly nationalistic and suspicious of U.S. initiatives or proposals aggravate the problem.

This study focuses on United States national security interests in Mexico, discusses the history of U.S.-Mexican relations and illuminates the most complex problems which create friction in the bilateral relations between the two countries.

II. DEFINING THE NATIONAL INTEREST

The active pursuit of global interests by the United States is a relatively recent development. The keynote of the foreign policy of the United States was sounded by George Washington in the memorable proclamation of neutrality of 1793; "The new nation must not have part in the political broils of Europe. The great ocean has isolated us--why forego the advantages of so peculiar a situation."² Prior to WWII, with the exception of the Spanish American War and the interruption of WWI, the United States was a nation protected in isolation by its bordering oceans.

A dramatic enlargement of the international environment was precipitated by the massive destruction of WWII, the rolling back of the European colonial powers from their traditional paternalistic roles, and the emergence of the Soviet Union as an expansionist power determined to dominate the world.

The outcome of WWII saw the United States emerge with an undisputed edge in industrial capabilities and a fairly strong economy automatically thrusting it into a position of free-world leadership and extensive foreign policy. A leadership role which over the past 25 years has been questioned not only by those who share its basic principles, but also by those who are the main resource of the United States, its citizens.

Any discussion of foreign policy or of U.S. interests in another country must ultimately deal with the perennial perplexity of defining the national interest. Without exception, every study that attempts to evaluate past foreign policy or to recommend a correct course to follow, is founded upon a particular definition of the national interest. There are many areas of doubt about and criticism of the concept of national interest. Many scholars argue that the concept is too broad, too vague and too all-inclusive. Others have argued that in a pluralistic society such as that of the United States containing a mixture of interests such as racial, ethnic, religious, economic, professional and ideological, it is impossible to determine such a perplexing problem.

Various scholars have proposed a variety of formulations of the national interest in terms of its functional components. James Rosenau, in his article, "National Interest," states, that there are two schools of thought regarding the definition of national interests.³ The "Objectivists" are concerned with the "worth" of a nation's foreign policy in terms of objective reality. According to this approach, the mere process of describing the reality of a situation will make apparent what the rational course of action should be, i.e., the national interest is assumed to be self-evident in the evaluation of such an objective description of the situation, problem or crisis.

The subjectivists on the other hand, are more concerned with explaining why a situation exists, and attempting to interpret the values and aspirations of the people in their formulation of a solution to the problem. According to this line of argument, the national interest is whatever the nation's leaders seek to preserve and enhance. The leaders in turn attempt to reflect the aspirations of the people in their furtherance of the national interest.

The objectivists have a problem in that because goals and interests are value-laden, men differ on what constitutes the "self-evident" goals of a nation. The subjectivists must deal with the fact that the different groups have differing concepts of what action and policies are best. More specifically, the resulting conflict of interests may cloud the issue and make it difficult for leaders to determine what the people want. Clearly situations are never so well defined that the best option is obvious and agreeable to all. Nor are situations always going to generate sober analysis and clear-cut expression of choice by the people.

Along these lines Walter Lippman has argued that a loss of a "public philosophy" has occurred in recent years. Lippman believes that the liberal democracies of the West are in decline, a decline which started in 1917 when the stress and exhaustion of the war caused many democracies to be influenced by their publics, and this led them to lose authority by including the emotional public in the execution

of policy. Lippman contends that the resulting increase in public involvement changed the role of elected officials from that of being elected to make wise decisions for all, to that of being elected as a mouthpiece for their constituencies.

Lippman states that public opinions should not be ignored, but that they should be treated for what they are and not necessarily as propositions in the public interest. He believes that the people should let professionals govern since that is what they are elected to do.

Strategic and diplomatic decisions require a kind of knowledge, experience, and seasoned judgement that cannot be gleaned from reading newspapers, reading a few books, and attending occasional lectures.

In short, Lippman believes that the democracies are in decline because the power of the executive has become "enfeebled, often to the verge of impotence, by the pressures of the representative assemblies and of mass opinions."

Taking a slightly different approach, Martin E. Goldstein, contends that the primary objectives of U.S. Foreign Policy is national security. Consequently, criteria must be established as to which portions of the globe must be defended in a conventional military manner. For the U.S., according to Goldstein, the portion of the globe that is critical to U.S. security includes Canada, Mexico and the Caribbean area.⁴ To assist decision makers in deciding which areas of the globe must be kept friendly and out of the threat of aggression by

unfriendly powers due to National Interests, he has established nine fundamental and logical indicators. These are:

1. Geographic proximity so that friendly nations are on the periphery;
2. Strategic location including control over external lands, waterways, and geographic configurations;
3. Sources of scarce and vital resources;
4. External economic markets;
5. Supplies of scarce and vital finished goods;
6. Repositories of the country's private investment;
7. Friendly countries with influence potential based on population;
8. Friendly countries with a highly industrialized level of economy;
9. Friendly countries with military power.⁵

One difficulty with this framework is however obviously the fact that the relative importance of each item is not clearly specified.

Donald E. Nuechterlein, who has made a significant effort, towards the stringent analysis on national interests, uses a taxonomy of four basic U.S. interests: (Defense) the protection of the state from external and internal threats: (Economic) general enhancement of the well being of the state and its populace: (World Order) protection of the state in its position in world politics and its populace: and (Ideological) the protection and continuation of a set of

values which the state holds as its own. He defines the national interest as "the perceived needs and desires of one sovereign state in relation to other sovereign states which constitute its external environment."

Nuechterlein qualifies three major implications of his definition: (1) that decisions about the national interest are the result of a political process in which the leaders ultimately decide the importance of an event or crisis to the national interest; (2) that such decisions differentiate between the public interest as it relates to the internal environment (and the national interest as it relates to the external environment); and (3) finally his definition implies that the interests apply to the nation in its entirety rather than the interests of private groups, bureaucratic entities or political organizations within the state. Because it can be operationalized, Nuechterlein's "world order" interest will be combined in this study with the "defense" interest and aspects of "economic" interests as one broad category of United States Security Interests.

As one can gather from the previous discussion, the literature dealing with the national interest is somewhat limited and often resorts to criticism of the writings of others without offering substantially better ideas on the subject. If the national concept is to be useful to diplomats and other foreign policy makers in the future, we must recognize that states do not have a single national interest,

but many interests which are determined through the political process of their respective system.

The foregoing thoughts and complexities in the concept of the national interest added to the forthcoming section, will hopefully facilitate the process of foreign policy analysis and result in more realistic decisions by our policy makers in the interest of National Security.

A. FOREIGN POLICY DECISION MAKING

Prior to setting out on a course to determine a nation's foreign policy, it is necessary to examine the interests that its policies are pursuing and willing to secure.

Different ideas, methods and resources available, are what makes a government's decisions political. Often individuals and interest groups will attempt to maximize their desires by voicing dissatisfaction thereby attempting through this dissatisfaction at placing a leverage on government decisions.⁶ Within this sphere of limited resources and standards of social acceptability, one group's maximum satisfaction is another group's maximum dissatisfaction. Such a discrepancy leads to conflict.

It is one of the tasks of our leaders in the nation's capital to satisfy the largest possible number of these interests. But it is also a fact of politics that not every interest can be satisfied. Robert Osgood put it this way: "National Interest is understood to mean a state of affairs valued solely for its benefit to the nation."⁷

The guiding principles of the constitution can be seen as implying three requirements on the conduct of United States foreign policy in order that it be in the national interest:

First, it must promote national security, "the defense of internal values against external threats."⁸ As Donald E. Nuechterlein, Hans J. Morgenthau, Morton H. Halperin and Martin E. Goldstein would conclude, the fundamental goal of U.S. foreign policy must be the avoidance of those actions which could threaten the posterity of the U.S. or its way of life. This requires, however unpleasant the prospect, unflagging attention to national power and international power relationships in all their complex forms.⁹

Secondly, U.S. foreign policy must strive continuously to create an international political and economic environment conducive to the enhancement of United States economic and physical welfare. The "economic and physical welfare" of the United States encompasses a myriad of objectives and problems, internal and external, such as economic growth, population, inflation, unemployment, health, food, water and water sharing, ocean and mineral rights, energy and immigration, just to name a few. It is dilemmas of this nature which will require a substantial amount of debate over the long run, and in the short run demand certain unpopular decisions and sacrifices in economic welfare for the physical well being of the nation.

In today's world of conflict, interdependency and competition, we cannot limit ourselves to think of these problems

as domestic, but must realize that changes in the international environment can place in retrograde the best of domestic programs. Each nation is committed to promoting its own interests by persuading other international actors to behave in a fashion that is compatible with the needs of others. The United States finds itself, therefore, committed to forums and agencies pursuing the cooperative and peaceful management of the international problems of economic and physical welfare.

The third requirement imposed upon United States foreign policy is that it must be conducted in such a form as to uphold and defend the democratic principles upon which the nation was founded and in which its founding fathers believed. It is from this requirement where the ideological interests category of Nuechterlein, for the protection and furtherance of a set of values that the citizens of a nation-state share and believe to be universally good, are derived.¹⁰

It can be said that ideological interests, which are value-laden impose major constraints on the formulation and execution of United States foreign policy, which in theory at least should reflect all U.S. interests. The most significant constraint, is that the Executive Branch does not have a free hand in the conduct of foreign policy. Congress, in particular, but also the judicial branch and public opinion have a part in policy formulation.

Measuring the magnitude of specific United States interests in another country and assigning priorities to those

interests are by far the most difficult problems in using the national interest approach in designing or analyzing foreign policy. It is relatively easy to establish a scheme for stating the level of U.S. interests as Nuechterlein has done with his four intensities of interest. While such a scheme does place clearly stated levels of interest, it cannot however eliminate the subjective judgement required to assign a particular level. Additionally, such a scheme inevitably tends to treat any specific issue as autonomous, when in fact most interests are interrelated with other interests.

If the concept of the national interest is so diverse, so nebulous and so elusive as to defy scholarly attempts to operationalize its definition, how then can those elected to decision making positions know for certain that the foreign policy they will choose will accurately represent the multiple dreams and aims of this society. The final judge, then, is the decision maker. In adhering to J. Roland Pennock's thesis of "precise policy based on experience, continuing contact with special interests, and freedom to pursue the national interest as they come to see it,"¹¹ the decision makers actual goal is to provide for the nation the resources to achieve those interests as he comes to see them.

Though a definition of the national interest may not be available, a working concept remains necessary (until at least some other vehicle may be found which can form the

basis for foreign policy). If the national interest cannot be precisely defined, the vehicle through which the decision maker can move from the attainment of an unambiguous measure of national interest to the formulation of foreign policy is the pragmatic one of achieving what appears to be optimal at the time (again given no unambiguous measure of the national interest). A distinction must be drawn between national interests and the circumstances of time and place which determine the actual policies pursued.

B. UNITED STATES ROLE

Secretary of State Edmund Muskie once said "There is no lack of rhetoric calling for more American leadership in the world--leadership we must continue to provide. But if we are to continue to lead then we must be prepared to pay the costs that leadership requires."¹²

This is a role which the U.S. must continue to pursue especially in those regions where the costs are presently relatively low compared to what they would be if uncontrolled destabilization and turmoil were to become deeply rooted. The United States is however, constrained as to how it goes about portraying this leadership role. The days of the "Cold War" are gone. The attempt at reawakening of awareness of East-West issues in the wake of Soviet-Cuban support for revolutionary governments in Latin America, has not altered the "de-facto" character of the international system.

The United States can no longer act as a command figure and become directly involved in the affairs of other sovereign nations. Mistrust of past administrations and policies has led Third World nations to reject the United States for fear of dependence and of any possible U.S. claims vis-a-vis their internal affairs. United States Government administrations have been experiencing how quickly the U.S. public tires of the burdens of a role such as "world policeman." This does not imply however, that the U.S. should retire into an isolationist mode, and let the world mend their own problems. Walter J. Stoessel, Jr., Under-Secretary of State for Political Affairs, described it as follows in a speech in April 1981:

First, we have recognized that, beyond simply asserting our role as leaders of the free world, we must act as leaders. Responsible American leadership is of the utmost importance in achieving our aim of a just and stable world order. We must be strong, balanced, consistent and reliable in our policies and our actions and we must proceed with prudence and sensitivity with regard to the interests of our allies and friends, consulting fully with them as we work together for the more secure and prosperous world we all desire.¹³

To maintain its lead the U.S. must change its image by employing initiative, cooperation through consultation and perseverance. Initiative, because the world is in dire need of leadership today more than ever before. The magnitude of independent nations and those acquiring independence has never been greater. Not all of these nations can perceive the complexity of the many international problems facing mans existence and no other nation has the broad range of

capabilities and interests to deal within the international arena. The costs of leadership are enormous, and has become a role in which the United States has been thrust and there is no turning back. The dilemma then becomes how to best fulfill that leadership role.

Cooperation (when asked for) and consultation have been an effective tool in United States foreign policy. Consultation has two forms: bilateral consultations with our friends and allies, and multilateral consultations in the various international organizations and agencies. Consultation is the key to avoiding the "Hegemonic" image of leadership which grinds against the nationalistic views of other nations. Unilateral actions on the part of the U.S. are not condoned, when these decisions impact on others.

Because the effort must be put forth in a sometimes chaotic international system, the U.S. has had to develop both perseverance, meaning patient but continuous dedication to initiative, and cooperation/consultation (because of the magnitude of the worldwide problems). The United States was thrust in the leadership role after WWII, which has at times been a thankless job. The pay-off of this role however lies in the preservation and continuation of the national interest.

Long accustomed to its status as a world power, many in the United States tend to assign to their neighbors in the Western Hemisphere a minor share of attention in matters of foreign policy. Since the discovery in 1976 of major hydrocarbon deposits in Mexico, greater attention has been

focused on U.S.-Mexican relations. Although Mexico's future oil production decisions will have important consequences for the United States, it would be a mistake to focus only on the importance of energy for ties between both nations. This view alone would provide credibility and support the thesis that the U.S. pays attention to its southern neighbors only in times of interest.

Today there are other economic, noneconomic, and regional differences which have long existed between both nations (but have become much more alarming) threatening bilateral relations. The way in which these and other linkages are handled through diplomatic channels is likely to affect the evolution of U.S.-Mexican relations.

The stakes include much more than oil and extend to affecting the people of both nations. Mexico is not just another oil-producing country, and the U.S. needs to recognize the fact that even if oil did not exist, it would still be important because of the other factors mentioned in this study, which affect bilateral relations.

The issues are complex and there are many different perceptions and perspectives on how to best deal with them. Unless these perceptions and perspectives are taken into account when formulating U.S. policies, the national interest will not be well served.

III. UNITED STATES-MEXICAN RELATIONS: AN HISTORICAL PERSPECTIVE

Mexico and the United States find themselves in an inescapable and complicated relationship that is a result of their geography. Over the years the relationship has been molded in the crucible of a shared history that has not been without its traumatizing effects. The perceptions that have been colored by history are sharpened by differences and disparities separating the two nations. Octavio Paz, a Mexican poet and essayist, defines these dissimilarities as "development and underdevelopment, wealth and poverty, power and weakness and domination and dependence."¹⁴

It is obvious that both nations do not have a marriage made in heaven. But, the reality is that they are continental neighbors, and do share benefits and disabilities as well as problems and opportunities. It is an unavoidable and necessary close relationship, for as Mr. Paz expressed it, "our countries are neighbors condemned to live alongside each other."

The relationship began even before the two nations existed as such. It was born of a clash of cultures and of imperial systems, and included an admixture of bigotry, greed and racism. By the eighteenth century, Spain directed a great deal of its activity toward strengthening the northern frontier of New Spain (that region that was to become Mexico)

politically and militarily against the intrusion of Anglo-Saxons and other foreign rivals.

The American revolution for independence, together with the French Revolution, served as an inspiration for Mexico and other Spanish Colonies. The American movement was the first to break the chain of colonial ties with European empires, and its statesmen offered exciting new political concepts such as republicanism and federalism.¹⁵ Rebels in New Spain looked to the United States for assistance, but aside from the fact that the United States was the first to recognize Mexican independence, there was little U.S. support.

The winning of the American West came largely at the expense of Mexico. Just as the U.S. was starting out on its energetic course of westward expansion, Mexico was suffering disorder and dissent. Mexico's struggle for independence from Spain erupted in 1810 and culminated in 1921, leaving Mexico a sovereign republic, but Mexican society a total wreck. The once-thriving economy was now unproductive, the political system was in disarray and the country became a paradise for ambitious ex-generals from the wars of independence, who continuously struggled for power.

The United States took full advantage of this situation. In 1823 the United States issued a far-reaching declaration of policy known as the Monroe Doctrine, warning the European powers that any attempt to extend their monarchical system to this hemisphere would be considered a threat to the peace and security of the United States.

The doctrine seemed to promise an alliance in the event that Spain sought to reconquer its former colonies, but Mexico was more cautious than positive. Since the Monroe Doctrine had been manifested unilaterally, without consultation with any Latin American country, it caused much concern. In time the doctrine would become mixed with U.S. expansionism and imperialism and would be viewed as a cover for U.S. hegemony within the hemisphere. However, before such concerns and fears were given substance by events, a second reason for doubt became apparent. The United States soon demonstrated that it alone would determine when the doctrine was applicable, and other nations could not request its enforcement. Spain invaded Mexico in 1829 in an attempt at reconquest, and nine years later the French invaded Veracruz in an effort at debt collection. In both situations, the United States did not put the doctrine into effect.¹⁶

During the second quarter of the nineteenth century, Mexico experienced U.S. westward expansionism and manifest destiny firsthand. Sensing that the United States posed a threat, Mexican leaders attempted to strengthen their territorial hold by permitting colonists to settle in the northeastern province known today as Texas, then a largely unpopulated wilderness. Despite these colonists' agreement to accept Mexican citizenship, they soon began chaffing under Mexican rule, and in 1836 they declared their independence. In 1837 the United States recognized Texas as a sovereign polity and in 1845, annexed the state of Texas.

While North Americans claimed that the southern border of Texas extended to the Rio Grande, Mexicans insisted that it should end at the Nueces River (see map). In 1846 United States President James K. Polk dispatched troops under General Zachary Taylor to the disputed area whereby the war between the U.S. and Mexico began, ending in 1948 with the signing of the Treaty of Guadalupe Hidalgo. As a result of this treaty, Mexico was obliged to surrender a huge span of land from New Mexico to California, more than a million square miles, in exchange for fifteen million dollars. It was not but a few years later that the United States extended its acquisition, by obtaining an additional corner of New Mexico and Arizona through the Gadsden Purchase (see map, page 27).

A. THE PORFIRIATO ERA

Relations between the two countries improved markedly during the final quarter of the 19th century and first decade of the 20th century. Mexico found peace and material progress in the reign of more than thirty years of Porfirio Diaz, who stabilized Mexico and began an economic modernization of the country. Foreign capital, particularly American capital, made a significant contribution to the Diaz modernizing process. Mexico's economic dependence on the United States dates from the 1880's and has increased or decreased in different periods since then rather than showing a continuous development in one area. This trend is relevant even today and originates from a fear of total dependence and display

MAP 1



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of weakness which has created a mistrust of the U.S., for fear of being dominated by its strong northern neighbor.

Although the Porfiriato Era was economically good for the U.S., for the mass of the Mexican people it added the burden of an exploitative foreign capitalism to that of an expanded agrarian feudalism.¹⁷ The beneficiaries of this period were foreigners and a small Mexican elite (very representative throughout Latin America). Mexico became known as the "mother of foreigners and the step-mother of Mexicans."¹⁸ It is no wonder that when popular discontent welled up in the Mexican revolution, beginning in 1910, the movement was strongly nationalistic, particularly in relation to foreign capitalists.

American ties to Diaz eventually had their price, and in 1911 after 35 years of autocratic rule, the Porfiriato was toppled by an insurgency which grew into the Mexican Revolution which lasted from 1910-1917. A multifaceted and sometimes confusing movement that gave expression in one form or another to the heartfelt aspirations of the masses. The Mexican people rebelled against a dictatorship, against institutions that had persisted since Spanish colonialism, and against the economic colonialism that Mexico had welcomed for more than three decades in the names of peace and progress.

B. UNITED STATES INTERVENTION

Although the United States was sympathetic with the democratic aspirations of Francisco I. Madero, initiator

of the Mexican Revolution, and U.S. President Woodrow Wilson refused to recognize General Victoriano Huertas counterrevolutionary regime which had overthrown and destroyed Madero, the turbulent decade of the revolution sorely tested U.S.-Mexican relations. There were neutrality violations, arms shipments and innocent victims of battle near border towns.

To protect American lives and property or defend national honor President Woodrow Wilson's strong reaction to the arrest of some United States sailors in Tampico,¹⁹ organized troops, moved warships into Mexican waters and organized raids by U.S. Marines, thereby occupying VeraCruz in 1914 in what has been called an "affair of honor."²⁰ The withdrawal of U.S. troops came in 1917 and this same year marked the ratification of the Mexican constitution, the most sacrosanct document of the Mexican Revolution.

Ultimately, the United States gave its support to the faction that triumphed in the revolution, but not without seeking to nullify some radical provisions of the constitution, especially the assertion of state authority over subsoil rights, Article 27, a clause which meant that the government could nationalize foreign-controlled oil properties, many of which were held by U.S. companies.

U.S. concern about the effect of these constitutional provisions on property rights foreshadowed the difficulties of the 1920's. The decade brought about much debate and threats of intervention as the United States sought a basis

for settling claims arising from the implementation of the agrarian and petroleum laws and from the suspension of payments of Mexican bonded and railroad indebtedness.²¹ These issues and most particularly the petroleum question, brought tension, confrontation and new conflict. In 1938, the issue of petroleum rose again when British and American oil companies defied the Mexican government, thereby causing the recapture of a precious national resource from foreign control. Oil had now been nationalized. This time, however, the Good Neighbor Policy of the Roosevelt administration, and the approaching World War II foreshadowed any disparities between both nations. Additionally, in contrast to its stance in World War I, Mexico joined in hemispheric defense measures, and after Pearl Harbor declared war on the axis.

C. WORLD WAR II TO THE PRESENT

The cleared atmosphere in U.S.-Mexican relations during the late 1930's and early 1940's made possible close collaboration during the war. Mexico did not participate as such in the war, but contributed strategic raw materials, agricultural production and thousands of workers who helped meet U.S. labor shortages caused by the manpower demands of the war. In return, the U.S. helped with the renovation and modernization of Mexico's railroad systems, stabilization of its currency and in the settlement of outstanding claims with the U.S. government and oil companies.

The legacy of North American behavior from 1820-1920 lives vividly in Mexico today, and deeply influences its bilateral relations with the United States. Mexicans look back on that period of U.S. action as an unremitting effort to determine the course of Mexico's destiny by force and diplomacy. Not only did the U.S. seize half of the nation, but it also attempted to manipulate its internal politics and undermine the greatest revolutionary movement in the country's history. Given this history of armed intervention and economic and sometimes cultural penetration, it is not surprising that Mexican attitudes towards the United States are characterized by fear, resentment and frustration.

U.S.-Mexican relations did enter a new phase since the Mexican Revolution ended in 1920. No longer does the U.S. attempt to conquer Mexican territory or unseat elected officials. The U.S. has begun to realize that adjusting to Mexico's increasing strength, stability and respect in the hemisphere and beyond, is to its best interest. However, the period since the revolution has not been without its friction and controversies. Neighbors are bound to have problems, and in this case the problems have stemmed as a result of a geographical common border. Problems of water sharing, population, drug traffic, economics, politics, immigration and the disparity between a rich and poor nation increase this potential.

The political issues of today and tomorrow are mainly socioeconomic in origin. At present the major concerns fall

under three very complex headings: (1) trade and investment; (2) migration; and (3) energy. Each set of issues has a history of its own and in order to establish a basis for acceptable solutions, each one will need to be examined in relationship to one another. In contemporary times, these three issues are the key to stable U.S.-Mexican relations.

IV. MEXICO'S TRADE AND ITS ECONOMY

In economic relations with the United States, Mexico faces a constant dilemma. On the one hand Mexico stands in need of U.S. trade and investment in order to obtain desirable levels of growth, on the other, Mexico fears any form of dependency which would restrict control of its economy. Economic sovereignty is an enduring legacy of the Mexican Revolution, and it is imperative for each administration to demonstrate a continuing commitment to the independence of the national economy against real or potential advancement by the United States.

The year 1978 represented the commencement of a period of rapid economic growth for Mexico's economy. Due to rising oil revenues, foreign loans and investments, and resting upon the political stability provided by successive administrations of the Institutional Revolutionary Party (PRI), investment consumption and income began rising at fast and impressive rates. By the early 1980's, the growth process began encountering problems. A high and rising inflation, a low and declining productivity in all sectors, structural imbalances in most labor markets, and catastrophic rural emigration were but a few of the problems that culminated in a major economic crisis beginning in February 1982 which threatened to slow down or even stop the process of economic growth for the foreseeable future.²²

Ironically, the spark that ignited the financial panic in early August 1982 was an austerity measure.²³ After a sound election victory in July for the official government party, the PRI, on August 1 the government decreed price increases of 100 percent on bread and tortilla and 50 percent on gasoline to reduce budget deficits caused by subsidies for these same items. Anti-inflationary in the long run, these measures meant short run corrective inflation. More significantly, they provoked the public, already shocked by a 60 percent annual inflation rate frantically to convert pesos to dollars. With sharply declining foreign exchange reserves the government declared domestic dollar deposits in banks redeemable only in pesos, instituted a dual exchange rate, and temporarily closed the exchange market.

The demoralization of the private sector, the prevailing impoverishment of large numbers of unemployed, and the dangerous political disaffection pose very difficult problems for those presently responsible for formulating governmental policies. The orthodox prescription being offered by the International Monetary Fund (MF), could become politically painful medicine. On November 10, 1982, the Mexican government announced it had reached a long awaited agreement with the IMF on an austerity program designed at easing the crisis caused by the nation's \$80 billion foreign debt, the highest of all nations. Under the agreement Mexico would receive \$3.84 billion worth of credit from the I.M.F. over the next

three years, but the government must drastically reduce its deficit, raise taxes, and curb imports to qualify for the fund.²⁴

To the extent that one can judge from published articles and interviews, the new policies emerging under the leadership of President Miguel de la Madrid appear to emphasize restoration of financial stability and domestic investor confidence as well as agricultural development and promotion of exports.²⁵ Additionally he has committed himself to a "moral renovation," a fight against the profound cultural problem of corruption.²⁶ Whether this reflects a new long-term strategy or merely an expedient attempt to qualify for necessary additional credits, is yet to be seen.

Economics is definitely an important aspect of U.S.-Mexican relations. In what ways economic relations between both nations will be affected by any new development strategy being formulated by Mexican authorities remains speculative.

A. MEXICO'S ECONOMIC DEVELOPMENT PLANNING

For most developing countries, rising energy prices are not likely to pose any new problems per se, but rather, they are likely to exacerbate existing ones--increased external debt, etc. Industrialized countries on the other hand rely heavily on oil imports and find it difficult to implement and/or maintain economic and social programs fundamental to development objectives as funds are diverted from these purposes to cover additional fuel costs.

However, Mexico with its vast petroleum reserves for export and domestic use, has moved into a privileged group of developing nations. Its tasks have been the continued development of existing reserves and converting oil revenues into viable development goals. Developing oil reserves, is technically within Mexico's capabilities and has been financially feasible through easily obtainable loans from private and public international lending sources like the IMF. The second task is cause for great complexities. Mexico's development problems are numerous and severe and choosing appropriate development solutions is a characteristically uncertain process. The propensity for those with decision-making authority in Mexico to respond in a decisive fashion to the needs of the poor, is very much questionable and indecisive.

Mexico's problem of population growth, unemployment, rural and urban poverty, urban and U.S. migration, unequal income distribution, poor rural productivity and a weak industrial infrastructure must all be addressed comprehensively by the government and acted upon if trends are to be improved.

In March 1979, the Mexican government announced its Industrial Development Plan,²⁷ establishing a fairly coherent set of economic plans and policies to achieve goals upon which nearly all political elites agree. In order to meet these goals, former President Lopez Portillo developed a

series of plans for development laying out in detail targets and strategies to guide government and private sectors activity through a period covering his administration and beyond to the year 1990.²⁸ Many of these are derived from Mexico's desire to reduce its dependence vis-a-vis the United States and from the view that as a newly industrializing country Mexico suffers severe trade and other economic disadvantages when competing in world markets. High unemployment and high inflation in addition make Mexico dependent on other factors discussed earlier, such as labor migration to the U.S. Nearly all Mexican policy-makers agree upon or give lip service to at least the general goals of the Mexican development model which include:²⁹

a. to place priority upon decreasing an unemployment and underemployment rate which may well be above 40%, with the need to create 525,000 new jobs every year simply to stay even with the almost 3 percent population growth rate; and a related effort to ease what is one of the most inequitable income distribution patterns in Latin America.³⁰

b. to lay a sophisticated manufacturing export base which will provide jobs and take on the burden of maintaining economic growth as petroleum reserves decline over a twenty year period.

c. to lay a much more solid base for agriculture, both for food self-sufficiency and for export.

These planning documents identifying the required actions to reach specified goals, include some eight sectoral plans (i.e., employment, education, industry, urban and rural development), state plans and the Mexican Food System (SAM), all of which are not of equal importance.³¹ Of the sectoral plans, the 1979-1990 National Industrial Development

Plan (NIDP) and the 1979-1982 Global Development Plan (GDP) are the two key documents. Both plans emphasize employment as a key goal, and target very rapid economic growth through the 80's in order to achieve this.

1. Agricultural Developments

Mexican industrialization policies have worsened problems already present in the economy such as a skewed income distribution and an increasing dualism. As the productivity increases of agriculture began to level off in the late 1960's, forces in the market began to reshape production.³² The growing urban middle and working classes sought meat, poultry and processed foods; domestic industry needed such items as cotton, sugar and soybeans; and the international market, largely the U.S., sought feeder cattle, vegetables, citrus and coffee. In the absence of government policies to offset market forces subsistence crops like corn, beans and rice gave way to livestock production, forage crops and export crops.

During the past 15 or more years³³ Mexico has had to import large quantities of grain and other basic foods while exporting Winter crops as previously mentioned. In recent years the presumed "comparative advantage" of this strategy has turned against Mexico, and some observers believe that by 1990 food imports will eat up over half of the petroleum revenues. Agriculture is likely to be the single most important social, political and policy problem

area for Mexico in the 1980's and 1990's.³⁴ Mexico's rural areas are its political Achilles Heel.

More specifically Mexican agriculture engages about 28 percent of the labor force and in 1980 accounted for less than 9 percent of Mexico's production. The increase in annual output in this sector has declined from a 5% average for 1940-1965 to only 2.5% between 1965-1976. This decline in production represents a severe problem due to the nation's continued national population growth.

The legacies of previous development policies shape the current reality, as governments must "undo" or somehow remedy the situations they inherit, particularly since policies of industrialization have led to a neglect in agriculture. From 1920 to the present a dual agricultural strategy has been employed by the government. First, in order to improve living conditions of the poor, land reallocation policies have been followed, by expropriating large estates from private owners and turning over these and some government-owned land to peasants for their use. Much of the land has been divided into ejidos and mostly farmed collectively. All of it is owned by the state and can be passed down to their heirs. Second, to increase in productivity a number of large-scale irrigation projects involving new land have been formed in vast commercial units.³⁵

Recently two problems led Mexican development officials to modify somewhat this strategy. A dramatic slowing

of output that was witnessed from the mid 1960's to the mid 1970's indicated that the large scale irrigation projects would no longer increase output as they had done initially. An important factor contributing to low agricultural output has been poor rainfall, combined with a limited extent of irrigation. All throughout the 1970's, rainfall was significantly below its historical average. In the 1978 and 1979 agricultural years, the situation was particularly bad with rainfall 15 to 18 percent below normal.³⁶ The high cost of additional water for irrigation and saturation of the market for high-cost crops contributed to this problem.

Additionally demographic pressures complicated the problem. Mexico's high growth rate combined with a large population of almost 70 million yields troublesome results: (1) Its population will almost double by the year 2000; (2) about half of the population is under 16 years of age, with obvious implications for nutrition, education and employment; (3) pressures on land are mounting leading to a "pulverization" of holdings. These alarming facts led the secretary of agrarian reform to declare that "old style" agrarian reform, expropriating land for redistribution to the poor, was infeasible; "there is no more free land."³⁷

The second problem was more fundamental to the overall development scheme. Although the old plan increased output temporarily, it did little to increase the incomes of the poor in the rural sector. When the peasants were given land through redistribution the land was often of poor quality

and of limited use because it was not accompanied by the required inputs to make it productive. Thus the average peasants income remains at the subsistence level.

These and other considerations led the Lopez Portillo administration to re-emphasize the production of basic foodstuffs through the Mexican Food System (SAM), established in 1980, and which calls for self-sufficiency in basic food grains as corn, beans, rice and wheats by the end of this past year and in other basic staples by the end of 1985. This would thereby allow the utilization of oil revenues for the establishment of jobs and increasing the living standards of the poor.³⁸ SAM proposes to revitalize the rainfed areas and to make changes in credit availability, agricultural pricing and other key policies which will increase the productivity of those who grow basic foods, i.e., ejido and other small farmers.

SAM came about as a result of comments and trade actions from the United States which throughout history has led to basic Mexican mistrust. This was especially evident in a Lopez Portillo speech where he very effectively played on Mexican concerns of fear for "the food weapon" to rally support for his policy:

We are going to organize the country to produce food in a dramatic circumstance, one in which it is becoming clear that the definitive strategic instrument of the superpowers is precisely the food that they have known how to produce...it would be tragic if having resolve the energy problem, we had to fall in the trap of hunger. We are not going to permit that.³⁹

2. Industrialization

Mexican industry is largely capital-intensive, a characteristic adding to its development problems rather than helping resolve them. Capital intensive industrial projects create few direct jobs and take years to spawn more labor intensive industries.⁴⁰ The Mexican manufacturing industry thus faces the challenge of rapidly accelerating its productivity growth, its labor force and expanding its output to facilitate greater import substitution and exports.

Even with a capital-intensive industry, Mexico must decentralize the economy by developing major growth centers in regions of the country outside its congested urban centers. This can only be achieved if the Mexican government invests itself and encourages a more decentralized form of private domestic and foreign investment through incentives such as tax credits. Such industrial expansion has commenced,⁴¹ and admittedly could be slow initially, but would relieve the burdensome and massive labor surplus in and around the cities, which in Mexico City alone continues rising at an average of 1400 persons a day,⁴² worsening the cities severe unemployment, crowding and crime.

Given the 1982 economic crisis, the regaining of the private sectors confidence and a continuing effort to attract investment should remain a key concern of the de la Madrid period. Diversifying the economy is important not only in terms of import substitution and employment, but

also in terms of sustaining the Mexican economy in the long run when petroleum reserves are eventually exhausted.

3. Energy Developments

Nine years ago, Mexico's status changed from that of a net oil importer to that of a net oil exporter. New oil discoveries promised to reinstate Mexico to the status it had enjoyed in the 1920's, as a major oil producer, if not a major exporter. Prior to the more recent petroleum developments in the Chiapas region, Mexico was producing oil from approximately 4,000 wells,⁴³ mostly in the northeast coast of the Gulf of Mexico, and most of which were classified as low yield. By the end of 1976, the number of new wells in the south had increased to about 200.

In November 1980 Mexico announced a National Energy Plan⁴⁴ with goals through the year 2000. The goals of the plan are:⁴⁵

1. to export petroleum only insofar as the country can productively absorb resources from abroad.
2. to attempt to increase the value-added content of petroleum exports.
3. to use the export of petroleum to diversify Mexico's foreign trading partners.
4. to take advantage of petroleum sales to absorb modern technology, develop more rapidly the production of capital goods, obtain access to new markets abroad for manufactured goods, and obtain better terms for financing.
5. to cooperate with other countries in the development and supply of petroleum and in the exploitation of local sources of energy.

The plan proposed that throughout the 1980's, a fixed average export ceiling of 1.5 million barrels per day (bpd)⁴⁶ of petroleum and 300 million cubic feet of gas, would be adhered to. As of 1981, Mexico had proven reserves of 70 billion barrels, probable reserves of 30 billion barrels and potential reserves of 300 billion barrels of oil.⁴⁷ Approximately three-quarters of the Mexican reserves consist of crude oil and the rest takes the form of natural gas. These wells have a 1000 to one gas to oil ratio (GOR), making Mexico the owner of approximately 5 percent of world proven reserves of crude oil and 3 percent of world proven reserves of natural gas.⁴⁸

The natural gas produced in parallel from the oil wells is expected to increase significantly, as will total gas production. Whereas in 1976 this production was equivalent to 18 million metric tons annually, by 1980 the production of natural gas reached an approximate level of 30 million tons. Mexico's production of liquidified petroleum gas (LPG) totalled 20.5 million barrels per year in 1976 and reached a level of 28 million barrels in 1980. These developments reverse the trend whereby internal demand for LPG had necessitated increasing imports in recent years, especially to serve Monterrey and several other major cities in the northeast part of the country.⁴⁹

Although Mexico is a non-member of the Oil Producing and Exporting Countries (OPEC), its policies on price

increases are comparable or slightly above OPEC levels.⁵⁰ These escalating prices combined with expanded production raised Mexico's hydrocarbon export earnings from \$311 million in 1976 to \$10.4 billion in 1980, with 1981 revenues estimated slightly higher.⁵¹ Oil wealth not only generated foreign exchange, but also enhanced the country's attractiveness to foreign capital markets, especially those of industrialized nations. The blessing and availability of these enormous resources made the Mexican government optimistic about the future. Mr. Diaz Serrano, former director general of Petroleos Mexicanos (PEMEX), noted, "For the first time in history Mexico enjoys sufficient wealth to make possible not only the resolution of economic problems facing the country, but also the creation of a new permanently prosperous country, a rich country where the right to work will be a reality."⁵²

Although the continued exploitation and exploration of oil resources continues as fast as it can, the Lopez Portillo administration was also hoping to derive 25 percent of energy requirements from non-oil sources by the year 2000, including nuclear sources. However, with the current economic crisis, the previous governments ambitious nuclear energy program which called for an installed nuclear generating capacity of 20,000 megawatts by the turn of the century, may be discarded. The nuclear option is likely to be substituted by an accelerated hydroelectric and geothermal power development program.⁵³

Petroleum production and export policy thus became important in terms of domestic consumption and growth issues, and also as a factor in determining what kind of a deal Mexico is able to negotiate for itself in international trade.

B. REGULATIONS AND FOREIGN DIRECT INVESTMENT

The most severe problem facing foreign investors in Mexico is one of "nationalism." Nationalism itself has been of great benefit in Mexico and without it there would probably be no United Mexican States.⁵⁴ To understand this attitude towards investment from abroad, its roots embedded in early history, must be realized.

After its independence from Spain, and more specifically during the Porfiriato Era, special protective measures and incentives offered were instrumental in drawing foreign capital to Mexico. European and United States capital were invested chiefly in communications, oil, mining and other basic industries.⁵⁵ The Porfiriato Era culminated in the Mexican Revolution, which among other causes, resulted from the extreme poverty of the rural population in contrast to the great wealth and extensive landownings of a few local families and a handful of foreigners.

The Mexican Constitution of 1917 established the social function of private property, laying the basis for extensive regulation of private economic activity, with the revolution. Article 27 of the constitution states, "The Nation

will always have the right to impose on private property the modalities which the public interest dictates, as well as the right to regulate for social benefit."⁵⁶

Since that date Mexico has enjoyed relative political stability, although foreign investment decreased considerably until about 1940, as a result of the nationalization of railroads, oil industry and the expropriation of land for distribution to agricultural workers.

The government's current attitude towards foreign investment started in 1960 with the program referred to as the "Mexicanization Program." This program does not exclude foreign investment, and was designed to ensure that Mexicans would participate in their country's industrial development and that foreign investment would benefit Mexico as well as the foreign investor.

Foreign investment can take many forms, such as indirect investments, international organization aid, and direct investment. The latter is the interest of this section, as it is subject to Mexican regulations designed to ensure that such investment contributes to the economic development of Mexico without affecting its political or socioeconomic goals or displacing available Mexican capital.⁵⁷

Mexico has long been regarded as a strongly interventionist state. The state has been active as financier, producer, regulator and developmental planner of the Mexican economy, extending the scope of these activities

throughout the past decade. During the 1970's, Mexico increased the regulatory policies covering foreign direct and technology transfer. These new regulations had several goals: first to strengthen the national private sector by reversing the trend towards the so-often referred to "denationalization," and second, to decrease the outflow of payments associated with foreign investment by controlling the payments for technology transfer, by eliminating or reducing those practices of foreign firms that tended to reduce exports, by encouraging local sourcing and by stimulating exports.⁵⁸ There were other goals of these policies such as regional decentralization and the creation of job opportunities, but these were secondary to strengthening national business and improving the balance of payments.

The administration of President Luis Echeverria (1970-1976) had a special interest in transnational corporations, as well as the relations between international and national policies. Building on the interventionist model of the post-revolutionary state in Mexico and on the regulatory tradition of post-World War II governments, Echeverria adopted a series of policies to regulate the structures and activities of transnational enterprises. Among these was the Law to Promote Mexican Investment and to Regulate Foreign Investment," which became effective May 9, 1973.

The foreign investment law was in many ways a compilation of existing policies towards investment, but also

included new provisions as depicted in Appendix A. The most novel aspect of the law, when compared to past Mexican practice, is the requirement for prior permission for most activities involving foreign investors. This includes new investments, acquisitions of more than 25 percent of capital, expansions which would increase the percentage of foreign ownership, opening of new plants and the expansion into new produce lines.⁵⁹ The "Mexicanization" provisions of the law, provides that at least 51 percent of the equity capital in new investments, must be held by Mexicans. However, the law is not retroactive and possibly due to oversight or to the temptations involved in making decisions of this magnitude, the possibility for deviation from the strict 51 percent requirement exists.⁶⁰ On top of this, the law specified a total of seventeen conditions under which the National Commission on Foreign Investment, which was created by the law, could authorize foreign ownership in excess of any specified limits.

These regulations on foreign direct investment, have only had a modest impact. Two of its principal goals were preventing the increasing domination of Mexican industry by transnational firms and improving the balance of payments. More change has probably been achieved in the first area. Table I shows that new enterprises established after the 1973 Law was passed were more likely to be Japanese, German or British than was the case in the past. However, it is not known whether this outcome was as a result of an increase

TABLE I

ENTERPRISES ESTABLISHED AFTER THE FOREIGN INVESTMENT LAW OF 1973, BY NATIONALITY OF FOREIGN OWNERS, MAY 1973-AUGUST 1976

<u>Home Country</u>	<u>Total # New Firms</u>	<u>Share of all New Firms</u>	<u>Country Share of All Foreign Investment</u>	
			<u>1970</u>	<u>1976</u>
United States	264	64.0%	79.4%	72.2%
Japan	21	5.3%	0.8%	2.0%
Germany	18	4.3%	3.4%	6.5%
United Kingdom	18	4.3%	3.3%	3.9%
Switzerland	15	3.5%	2.7%	4.2%
Canada	12	2.8%	1.6%	2.0%
France	11	2.6%	1.5%	1.4%
Panama	10	2.3%	*	*
Italy	8	1.9%	2.0%	1.5%
Spain	7	1.6%	*	*
Belgium	5	1.1%	1.7%	2.0%
Lichtenstein	5	1.1%	*	*
Others (14 countries, <u>24</u> less than 1% each)		<u>5.6%</u>	<u>3.6%</u>	<u>4.3%</u>
TOTAL	418	100.0% [†]	100.0% [†]	100.0% [†]

* Included in "other."

[†] Due to rounding, figures may not total exactly 100%.

Source: National Registry of Foreign Investment.

in the bargaining power of the state vis-a-vis firms from the U.S., or simply due to the increased availability of foreign investors from those countries due to their own industrial expansion.

Additionally, these new regulations did not seem to have a negative impact on U.S. firms investments or profits. Table II shows that, and except for the year 1976, when the Peso was devalued by the Echeverria administration for the first time in 22 years, the value of foreign investment and profits by U.S. firms in Mexico continued to rise. Perhaps near the end of the 1970's and the beginning of the 1980's, the marked increase in investment can be credited to the interest in oil. In 1980, U.S. investment in Mexico had increased to \$1.6 billion, with an expected \$4 billion in 1982, compared to \$322 million in 1977.

As can be noted, the continued growth of foreign involvement in Mexico throughout the last decade was not demonstrably hurt by the increase in state regulation. This points out that even in a country with a central government so solidly interventionist as Mexico, the ability of the state to control foreign investment is rather limited.

C. U.S.-MEXICAN VIEWS OF TRADE POLICIES VIS-A-VIS EACH OTHER

1. The Issue

As of 1980, Mexico became the third largest trading partner of the United States after Canada and Japan. Both the U.S. and Mexico exhibit a high degree of economic

TABLE II

(A) VALUE AND (B) EARNINGS OF U.S. DIRECT INVESTMENT IN
MEXICO, LATIN AMERICA, AND WORLD, 1971-1978
(millions of U.S. dollars)

<u>Year</u>	<u>Total World</u>	<u>Total L.A.</u>	<u>L.A. as % of World</u>	<u>Mexico</u>	<u>Mexico as % of L.A.</u>	<u>Mexico as % of World</u>
(A) <u>VALUE OF FOREIGN INVESTMENT</u>						
1971	86,198	12,982	15.1	1,838	14.2	2.1
1972	94,337	13,667	14.5	2,025	14.8	2.1
1973	103,675	13,527	13.0	2,379	17.6	2.3
1974	118,819	14,597	12.2	2,854	19.5	2.4
1975	124,212	16,394	13.2	3,200	19.5	2.6
1976	136,396	17,125	12.5	2,976	17.4	2.2
1977	149,848	18,882	12.6	3,230	17.1	2.2
1978 (p)	168,081	21,336	12.7	3,712	17.4	2.2

(B) <u>EARNINGS ON FOREIGN INVESTMENT</u>						
1971	10,299	1,239	12.0	123	9.9	1.2
1972	11,485	1,372	11.9	197	14.3	1.7
1973	16,940	1,992	11.7	268	13.4	1.6
1974	25,612	2,248	8.8	387	17.2	1.5
1975	16,434	2,123	12.9	448	21.1	2.7
1976	18,999	1,906	10.0	70	3.7	0.4
1977	20,081	2,290	11.4	322	14.1	1.6
1978 (p)	25,656	2,694	10.5	597	22.2	2.3

(p) NOTES: Earnings = Earning of incorporated and unincorporated affiliates

(p) = Preliminary data

L.A. = Latin America excluding Caribbean

Source: Survey of Current Business, various numbers

interdependence involving trade, migration, finance and technology exchange. The sensitivity of the U.S. and Mexican economies to their interconnection is quite lopsided since in 1979 almost 70 percent of Mexico's trade was with the U.S., (Table III), whereas Mexico represented only 5.4 percent of U.S. total international trade in 1979 (Table IV). This asymmetry is a result of an 8 to 1 differential in productivity between both nations, plus the much larger U.S. population which gives the United States a greater base from which to operate.⁶¹ For Mexico, the overriding importance attached to national development leads the government to insist on autonomy of the government's trade and investment decisions. In contrast the United States has based its own trade policies on a series of international commitments, particularly those embodied in the General Agreement on Tariffs and Trade (GATT).

Disagreements are bound to arise when two nations have such divergent approaches to trade. In light of the crucial politico-economic relationship between both countries, trade policy change by one country or the other can be of great significance, sometimes creating political stances which must be ameliorated by heads of state or cabinet officials.

2. Mexican Export Policy

The key to Mexican export policy is a vast array of subsidies and incentives to promote industrial

TABLE III

MEXICO'S MERCHANDISE EXPORTS, BY COUNTRY AND AREA,
1975-1979

	1975	1976	1977	1978	1979
	(In Millions of Dollars)				
United States	1,614	1,854	2,399	4,411	6,147
Canada	43	48	44	61	74
Europe	333	367	397	572	1,098
South America	268	315	371	381	419
Caribbean and Central America	214	191	215	240	271
Other including:	233	214	224	552	905
Israel	44	65	70	106	299
Japan	109	100	82	171	248
People's Republic of China	25	9	17	123	129
TOTAL	2,705	2,989	3,650	6,217	8,914
	(In Percentages)				
United States	59.7	62.0	65.7	70.9	68.9
Canada	1.6	1.6	1.2	1.0	0.8
Europe	12.3	12.3	10.9	9.2	12.3
South America	9.9	10.5	10.2	6.1	4.7
Caribbean and Central America	7.9	6.4	5.9	3.9	3.0
Other including:	8.6	7.2	6.1	8.9	10.2
Israel	1.6	2.2	1.9	1.7	3.3
Japan	4.0	3.3	2.2	2.8	2.8
People's Republic of China	0.9	0.3	0.4	2.0	1.4
TOTAL	100.0	100.0	100.0	100.0	100.0

NOTE: Detail may not add to totals because of rounding.

^aPreliminary Data.

Source: Banco de Mexico, Indicadores economicos, December 1977 and 1978, pp. 66-69; February 1980, p. 67.

TABLE IV

U.S. EXPORTS TO MEXICO, BY MAJOR COMMODITY CATEGORIES,
1975-1979

	1975	1976	1977	1978	1979
	(In Millions of Dollars)				
Food and beverages ^a	509	285	580	786	760
Industrial supplies ^b	1,556	1,497	1,436	1,878	2,369
Capital goods ^c	1,913	2,007	1,679	2,452	5,431
Consumer goods ^d	893	927	868	1,174	666
Other ^e	270	274	259	391	436
TOTAL	5,160	4,990	4,822	6,681	9,667
As percentage of total U.S. exports	4.8	4.3	4.0	4.6	5.4

NOTE: Because this table is based on data from the U.S. Bureau of the Census, the figures differ from Mexican trade data. Detail may not add to totals because of rounding.

^aSchedule E codes 0 and 1.

^bSchedule E codes 2-5 and 671-677 and 681-691.

^cSchedule E codes 6 and 7 less 671-677, 681-691, 781, 785, 793, and 799.

^dSchedule E code 8 and 781, 785, 793, and 799.

^eSchedule E code 9.

Source: Overseas Business Reports, "United States Trade with Major Trading Partners, 1972-1978," Department of Commerce, International Trade Administration, May 1980, pp. 33-35 for 1976-1978; and Department of Commerce, "U.S. Exports of Domestic Merchandise," calendar year 1979, pp. 3-179-3-190, for 1979.

exports. Priority industries, economic expansion of depressed regions, and small business strength are encouraged by the widely applied system of tax promotion certificates called CEPROFIS, which are also granted on the bases of export performance. There are other varied incentives such as reduced rates for electricity and gas, preferential loan rates and rebates from 40 percent to 100 percent of ad valorem duties paid on machinery and equipment not produced in Mexico but utilized in the manufacture of products for export.⁶² According to a recent study, exporters can expect credit on more agreeable terms and more administrative cooperation when applying for investment and import licenses.⁶³ Various incentives are also available to the in-bond affiliates or maquiladoras of U.S. corporations established on the Mexican side near the border, which assemble imported components into finished products. The number of maquiladoras had grown to 600, accounting for \$1 billion in earnings and several billion dollars in trade at the end of 1979.⁶⁴

In total the array of subsidies and incentives provided to Mexican exporters can entail a formidable competitive advantage over the U.S. competition. In theory, the United States could take a fairly rigorous position against Mexican subsidies, by defining export subsidies somewhat more with respect to non-GATT members, or insist on a complete stop in trade with a country in which no trade agreement exists. These, however, are rigorous options

which due to other inherent problems and interests mentioned later, are not chosen.

3. Mexican Import Policy and Protectionism

Imports play a dominant role in the Mexican economy. They provide a multitude of goods without which growth and expansion would be impossible. Such items as equipment, heavy machinery, technology, a wide range of consumer goods and basic staples are a necessity.

In the past six years Mexico has attempted to move from a policy of import substitution of consumer goods to a policy of selective import substitution of capital goods and a concentration on export promotion of most manufactured goods.⁶⁵ This policy was aimed at producing internally what could be produced, basically consumer goods, with the end result that consumer goods imports have been kept to a minimum.

Until 1976 Mexico had a high tariff structure, but more importantly had strict quotas on most of the 7000 items on tariff schedule. In addition, import permits were granted not by a centralized executive agency, but by sector specific import committees formed by domestic manufacturers, who would approve import licenses on a case-by-case basis. This non-structured modus operandi not only resulted in ample protectionism but also led to virtual extortion among domestic manufacturers who would turn down import requests, claiming that the product was manufactured locally.

As of December 1979, only 1,729 items on the tariff schedule were subject to prior permit, though these still represent 55% of imports by volume and 60% by value. In areas such as durable consumer goods, quantitative import restrictions have been replaced by technical/bureaucratic judgements within the Ministry of Commerce, making decisions significantly more centralized.⁶⁶

A possible entry into GATT and its implications, would eventually produce an even more significant reduction of both tariffs and non-tariff restrictions. However, as mentioned in the next section, at present Mexico is unwilling to take the step towards implementing a free trade philosophy. The next step towards a more liberal policy would be the introduction of a two-year procedure which commenced in 1981 to remove import restrictions on all but 700 items on the tariff schedule. This latest move is not without opponents in Mexico, but it does create a coincidence of interests between nationalist and statist officials, and intellectuals and elements of the private sector harmed by imports of consumer goods.

Mexico's insistence on trade policy autonomy has as its corollary the importance its officials attach to the ability to raise trade disagreements directly with the President of the United States or his senior staff and cabinet officers. The result is a highly personal, case-by-case approach to trade disputes in which arguments may

be supported by reference to other dimensions of the bilateral relationship, for example, energy, migration, water sharing, or the close and mutually beneficial economic ties that currently exist between both nations. There is no doubt that this policy is a response to the disparities in size and economic strength that exist between both countries, and to the fact that the United States is aware that the bilateral trade is far more important to Mexico and its economy, but no less important to U.S. interests.

4. Mexico at the Tokyo-Round

With the possible exception of high oil discoveries, Mexico's announcement, that it would defer entry into GATT, has caused more concern in the United States, than any other trade-related issue.

Mexico actively participated in the Tokyo Round, but ultimately opted for its continued policy of non-adherence to The General Agreement on Tariffs and Trade, and also declined to sign the Code on Subsidies and Countervailing Measures, which covers the main issue between the two countries regarding imports of Mexican products into the U.S. The GATT issue points up most clearly the two levels of trade conflict between Mexico and the United States: substance and strategy.⁶⁷ The U.S. has continuously emphasized the immediate substantive advantages for Mexico's inclusion, while Mexican opponents of GATT have predicated strategic disadvantages. While there were many Mexican business interests and some top government officials⁶⁸ who favored

GATT membership, the blatant opposition of Mexican newspapers, small businessmen dependent on a protected domestic market, and some government officials, were able to deflect Mexico's movement towards GATT membership.

The United States perspective and its desire for Mexico to join GATT, reveals that the U.S. would like to see Mexico move toward a free trade orientation with emphasis on a Mexican decentralized trade policy-making process. Puzzlement over the decision left many in the U.S. bewildered, however, some noted that Mexico negotiated the best GATT entry protocol ever negotiated. Mexico is the largest U.S. trading partner not in GATT, and U.S. officials emphasize the importance of developing a framework to negotiate trade issues quietly, to avoid having each conflictual issue become too politicized and damage the overall relationship. Additionally, Mexico probably views the GATT much as it views the Oil Producing and Exporting Countries (OPEC) Cartel; it can take advantage of the benefits without becoming a member of the fraternity.

The basis for Mexico's opposition to join GATT may be divided into those arguments which refer to Mexico's strategic negotiating position vis-a-vis the industrialized world, primarily the U.S. The following points underlie the strategic argument:⁶⁹

- (1) Entry into GATT, regardless of specific exceptions negotiated for Mexico, implies accepting the rules of the international trade game laid down by the U.S. and Europe. Mexican entry into GATT means at least tacit acceptance of a free trade

ideology and the gradual elimination of protection, regardless of how much domestic policy-makers feel it is inappropriate in specific cases.

(2) The multilateral context for negotiating trade issues puts Mexico at a disadvantage vis-a-vis the U.S., its major and overwhelming trading partner. For the first time in history the U.S. needs trade with Mexico as much as or more than Mexico needs trade with the U.S. This is true not only because of U.S. petroleum needs, but also because, with the oil boom the internal Mexican market, once out of this crisis, may continue expanding rapidly and provide for the U.S. the opportunity to expand exports which are increasingly crucial to maintaining the value of the dollar, financing other trade deficits, and of major importance in world competition.

As mentioned previously, the decision by Mexico to defer entry into GATT, resulted in a difference of opinion with the U.S. and a major debate within Mexico. While former President Lopez Portillo is believed to have favored entry into GATT,⁷⁰ he took no active public role in the debate, but opted for a protracted public debate on the issue and abided by the result. This may have been as a result of the fact that leftist opposition, which support a nationalist development model, lined up against GATT and because of other decisions such as an increase in oil production, for which the government was being criticized for leaning too far towards capitalist internationalism. In this sense, the decision not to enter GATT was the center of the most important policy issues since the nationalization of foreign oil companies in 1938; the embedded nationalist concern of capitalist intervention versus statist nationalism.

At first glance, it would seem that Mexican resistance to participating in GATT and in the rules of protocol from the Tokyo Round will lead to a climate of continuous tension originating in threats or effective application of taxes, duties and "anti-dumping" measures. Even if Mexico was officially considered just another country without the special treatments of GATT, the reality is that the U.S. is obligated to take into consideration other elements of its bilateral relationship, such as issues of migration and energy sources on top of a favorable trade relationship, in the interest of future negotiations.

V. UNITED STATES NATIONAL SECURITY INTERESTS IN MEXICO

The bilateral component of the relationship between the United States and Mexico overshadows any other differences which both nations may have. Nowhere in the hemisphere is the need for greater attention clearer than in relations with the United States' next door neighbor, Mexico. Whether the issue is trade, energy, the northward wave of Mexican emigrants, or a combination of all these, the sovereign nation south of the U.S. border speaks with a stronger voice nowadays, and its problems and policies increasingly affect the United States.

For both security and economic reasons, the stakes of the U.S. in the stability and continued growth of Mexico are immense. We are traveling through a delicate period in Mexico's history which is of utmost interest to the United States, for the future of bilateral relations between both nations will depend largely on what actions the U.S. pursues now in its foreign policy.

The end of the Lopez Portillo Presidency left Mexico and its economy in a state of ruins. High inflation, an almost worthless peso, unemployment, underemployment, and the world's largest foreign debt have caused concern among politicians in Washington.

There are those who advocate: "that the current economic crisis, while serious, can be viewed as a temporary financial

'imbalance'." The solutions are short-term in nature, and are viable options for the government. Prospects for future economic stability in Mexico depend on the willingness and ability of the government to enact necessary monetary and fiscal reforms.⁷¹

Regardless of how temporary, Mexico is undergoing some very hard economic realities and social concerns. The revolution in El Salvador has generated thousands of refugees, many of whom have crossed into Mexico. In addition Guatemalan refugees are streaming into Mexico causing severe problems along its southern border. As long as violence continues in Central America, Mexico will continue to be flooded with refugees it cannot afford to receive.

Mexico's domestic problems coupled with turmoil in Central America could spark destabilization in Mexico making it an unmanageable situation along our southern border. The Mexican government is concerned about the possibility of Guatemalan refugees forming guerrilla groups and commencing raids back into Guatemala, using Mexico as a staging area. This would create immense tension between both states,⁷² placing in jeopardy oil fields near the Guatemalan border. Recently, 4,000 Mexican soldiers were organized and sent to Mexico's southern region of Chiapas, with the purpose of the protection of oil fields if the situation arises.⁷³

The consequences of major revolutionary violence and counter-violence from a threatened Mexican government would include immense human suffering and economic dislocations,

tremendously increasing the tide of illegal immigrants from Central America and especially Mexico seeking safety within the United States. Political and economic costs for the United States would be immeasurable.

Over the past 150 years, there has been friction between both nations, because what has been perceived as good for one has not been perceived as good for the other (and vice versa). But there has also been a will to compromise evidenced by the numerous pacts, some implicit and others explicit, uniting both nations.⁷⁴ However, when this will to compromise does not exist, the demands for extreme solutions range from guns, electric fences, sensors, and dogs to a wall extending from the Gulf of Mexico to the Pacific Ocean similar to that wall in Berlin.

A. IMMIGRATION

The history of the United States is largely the story of immigration. As a refuge and the land of the free and opportunity, the United States today remains the solution to oppressive governments, unemployment, and poor to very poor living standards. This fact reaffirms the faith and central values which the founding fathers of this nation had and which we have adopted. President Ronald W. Reagan, in his speech accepting the Republican nomination for the presidency, reminded us of that fact when he said:

I ask you to trust that American spirit which knows no ethnic, religious, social, political, regional or economic boundaries: the spirit that burned with

zeal in the hearts of millions of immigrants from every corner of the earth who came here in search of freedom...⁷⁵

Then, examining the events of the recent past the President asked:

Can we doubt that only a divine providence placed this land--this island of freedom here as a refuge for all those people in the world who yearn to breathe free? Jews, and Christians enduring persecution behind the Iron Curtain, the boat people of Southeast Asia, Cuba and Haiti, the victims of drought and famine in Africa, the freedom fighters in Afghanistan and our own countrymen held in savage captivity.⁷⁶

Today, however, the United States is faced with the reality of limitations on immigration. The United States is accepting the fact that it cannot by itself solve the problems of world migration and must continue to have some limits on immigration.

The Select Commission on Immigration and Refugee Policy⁷⁷ recommended that the U.S. expand bilateral consultations with other governments, especially Mexico and other regional neighbors regarding migration. The commission is of the opinion that such bilateral consultations are necessary if countries are to find long-term solutions to migration problems. The issue of undocumented/illegal migration emerged as the most pressing of all issues presented to the commission.

Only rarely in U.S. history has immigration evoked the interest and concern that it now does. The main source of this concern is illegal immigration. Illegal migrations of persons in search of work occur extensively throughout Europe, Latin America, and the United States. Such migration to

the United States is so extensive that hundreds of thousands of persons annually enter this country outside of the law.

Mexico, which is the principal source of illegal immigration has an extremely high rate of unemployment-underemployment and low wage levels. On the other hand, the U.S. provides extensive employment opportunities at a much higher income level. Inducement of illegal Mexican immigrants by employment opportunities alone undoubtedly has a lot of merit, however, other factors like a common border and ease of access across it, the existence of family ties and a supportive ethnic community, and the absence of effective enforcement of immigration laws contribute to the problem and give rise to much debate in the United States.

1. Opposing U.S. Perspectives

The postulations of public officials, interest groups and analysts about the adverse effects of illegal immigration range from the increased costs it imposes on local governments for services consumed by deportable aliens who pay little or no taxes to the weakening of the United States balance of payments position caused by the remittances these aliens send home. The best known causal association is the link made between immigration and unemployment. This has been a fear long troubling U.S. citizens. This plausible fear was not reduced by the absence of much evidence to support it. There was not enough data on illegal aliens in jobs or whether they displaced citizens; but there was some

evidence of Americans refusing the sort of tasks that illegal aliens did.⁷⁸ Responses to jobs ads in New York City, for example, showed that, and in 1977 a Virginia apple grower claimed he hired U.S. hands to pick fruit but that they left during the first day because the work was too hard.⁷⁹

Others against immigration have gone so far as to claim that this influx of Mexican workers represents a social contaminant, a threat to national ethnic integration. William Colby, former director of the CIA, has claimed that in the future, Mexican immigration will represent a greater threat than the Soviet Union for the United States.⁸⁰ Senator Alan K. Simpson, Chairman of the Senate Subcommittee on Immigration and Refugees, has stated that immigration from Mexico is a factor in the growing separatism within the U.S. which could manifest itself linguistically to the detriment of the English language. He has compared this situation with what has happened in Quebec as a basis to begin calling for measures which would virtually close the border to immigration from Mexico.⁸¹

A different line of thought expressed by public officials and domestic interest groups views illegal immigration as generally beneficial to the country in that the undocumented worker fills important labor market needs at relatively little cost to society. Advocates of this view argue that undocumented workers or deportable aliens take the unattractive, lowest-paying, least skilled, dirtiest jobs in the fields, packing houses, canneries, restaurants,

hospitals and garment and construction industries while Americans without jobs prefer to collect unemployment or welfare.⁸²

Although those in favor and those against illegal immigration differ as to how to go about finding a solution, they do generally agree that the Mexican government should develop stringent programs to foster economic development, improve employment opportunities and decrease the population growth in rural areas. It is commonly accepted that the main responsibility for promoting such programs rests with Mexico's government.⁸³ However, this logic of viewing illegal immigration as a problem with an easy solution of which Mexico is the source of the problem and location of the solution, leads to paternalistic and interventionist prescriptions which are suspicious in Mexico.

Of all current issues between Mexico and the United States, the uncontrollable flow of Mexican citizens into the U.S. may well present the most delicate set of problems. Aside from its economic dimension, it is a sensitive issue on both sides of the border.

2. Mexican Perspectives

The benefits for Mexico from this migratory flow is easy to assess. Migration to the U.S. provides Mexico with a means of dissipating social pressure with potential for strife. Political stability in Mexico is therefore a major concern for the United States. To understand what is happening in a country whose population reaches 70 million

and by the year 2000 is expected to pass the 120 million mark, we need to acquire some knowledge of Mexican perspectives and attitudes towards the United States.

There is a famous saying in Mexico, credited to Porfirio Diaz, a former President of Mexico, which says, "Pobre Mejico, tan lejos de Dios, tan cerca de los Estados Unidos," which translates in English to "Poor Mexico, so far from God, and so close to the United States." Mexican attitudes towards the U.S. are characterized by feelings of fear, mistrust, resentment and frustration. As noted in Chapter II, these attitudes stem from early history between both nations dating as far back as the 1820's. Past history is not forgotten and lives vividly in Mexico today influencing its negotiations with the United States. There is no element of U.S. relations with Mexico whether it be trade, migration, the price of natural gas or barrels of oil exported that is untouched by Mexican concerns of U.S. domination or intervention in Mexican affairs. Professor Victor L. Urquidi, a professor in Mexico and a member of the United Nations Advisory Committee on the Application of Science and Technology to Development, was quoted as saying, "Mexicans do not look upon the United States and its predatory, self-centered national interest with anything but mistrust." "Nor do Mexicans readily assume that the U.S. foreign policy is in the best interests of Mexico or that everything the U.S. does is in the best interest of Mexico."⁸⁴

In the Mexican mindset, conflicts that occurred before the turn of the century, and attitudes of nationalism that were born as a result of the Mexican revolution, must be understood by United States policymakers before insulting comments about misguided Mexican politics and actions are made which only result in animosity and friction.

Although in the United States, immigration has been a public issue which changes cyclically during periods of unemployment, in Mexico it is almost a non-issue. The view is widespread that migration flows perform valuable services for both Mexico and the United States. Thus it serves as a "safety valve" preserving Mexico's stability, easing the effects of rapid population growth,⁸⁵ land scarcity, unemployment-underemployment, and rural poverty, and at the same time provides cheap labor to businesses in the U.S. Although this view seems beneficial to Mexico, it reflects a dependency on the U.S. which as mentioned previously, detracts from U.S.-Mexican relations.

3. U.S. Policies Towards Immigration

The history of immigration policies directed mainly at Mexican emigrants has been plagued with crude actions on the part of the United States. From massive deportations in the years of the depression to a creation of new demands for hired hands at the outbreak of WWII. In 1942 both governments established the "Bracero" program under which Mexican laborers would enter the United States under seasonal contracts, mostly for "stoop labor" in vegetable and cotton

fields.⁸⁶ The number of workers under contract never rose above 50,000 during the years of WWII. But the program stimulated illegal immigration after the war by encouraging more Mexican applicants for the program than there were openings.

Most unsuccessful applicants crossed the border illegally, convinced that jobs would be available. This increased flow of illegal traffic was further encouraged when the entrants called "wetbacks," were given legal status and incorporated into the bracero program once in the U.S. In 1949 for example, 87,220 wetbacks were legalized, while only 19,625 new braceros were admitted to the U.S.⁸⁷

In June 1954 the United States initiated another major program known as "Operation Wetback," to apprehend and expel deportable Mexicans. The program lasted only two years and was credited with approximately 1,000,000 deportations. After the end of Operation Wetback, labor contracting diminished immensely. But the end of the bracero program in 1964 commenced an increase in contracting and the business of smuggling and procuring false documentation, which again brought about pressure by the government to curtail illegal immigration.

Over the past few years, former President Carter and President Reagan have attempted to find a solution to the immigration program by adjusting immigration ceilings, recommending "guest worker programs," and establishing a legal resident date for those who have been in the U.S. for

some time. On July 17, 1981, President Reagan approved a plan to reform U.S. immigration laws. Although Mexico's position on Central America has superseded all other matters in the relations between Mexico and the United States from the Mexican point of view, the question of undocumented workers continues to be pressing bilateral problems.

A drastic curtailment of undocumented-illegal immigration from Mexico will undoubtedly require rigorous screening of applicants for nonimmigrant visas, student and tourism visas, an increase in border surveillance, and continuous investigation on employers who knowingly hire illegal immigrants. Illegal immigration deserves attention because it is a massive violation of law which has the effect of distorting the objectives of the nation's immigration policy with respect to the size and composition of the tide of immigrants. It also contributes to other illegal acts against U.S. laws, such as fraudulent documents for use in legitimizing residency in the United States, and leads to the smuggling of human cargo. To take no action would only result in a worsening situation.

However, the impact any of these drastic measures would have on the nation as a whole would have to be weighed against a reduction in the number of entries. Reduced tourism would cause economic losses for the domestic economy and particularly for cities in the U.S. that rely heavily on tourism. Admission of fewer foreign students would hurt the many private U.S. institutions that cater to foreign

students in general. Heavy fines on large businesses and farmers which rely on cheap labor to survive would undoubtedly result in the closure of such businesses and a possible move by some employers to foreign countries. Finally, an increase in border surveillance would require an increase in personnel, both administrative and border patrols, and logistical support in terms of vehicles, aircraft, sensor devices and the extension of chain linked fences which only serve to slow down any crossings. As it stands today, the Border Patrol's main problem is that it is outmanned. There are approximately 2,300⁸⁸ agents on the border, which is just over one agent per mile if all were on duty twenty-four hours a day, seven days a week. As it is, only 300 are on duty at any one time because of rotating shifts and vacations.

In the late 1960's there may have been about 200,000 illegal entries, permanent or temporary, from Mexico per year. Now the annual number may be as high as 80,000 or even 1 million,⁸⁹ and with the present economic crises, the INS estimates approximately 2 million Mexicans crossing the border illegally in 1983.⁹⁰

B. U.S. ENERGY NEEDS

If illegal immigration represents the "lightning rod" for U.S.-Mexican relations, then petroleum may provide a potential "ground wire," assuming that a common framework can be designed to embrace both issue areas.⁹¹

Since Mexico's discovery of extensive oil deposits in 1976, greater attention has been focused on U.S.-Mexican

relations. For the first time since President Woodrow Wilson's expedition led by General John J. Pershing to catch Pancho Villa, Mexico has something the U.S. badly wants. This gives Mexican politicians a strong bargaining tool, but, for reasons mentioned earlier it makes them a bit nervous also.

The figures on Mexican oil and natural gas mentioned in Chapter III are impressive, but underestimate Mexico's importance to the United States as a potential energy supplier. First, the size of Mexican proven reserves is likely to continue growing. Second, transportation costs are lowered substantially due to proximity and third, the erratic and explosive political situation in the Middle East have made that region an extremely insecure source of energy. Mexico offers the only demonstrated potential for large increases in oil exports from a non-OPEC country during the 1980's and beyond.⁹²

United States needs are enormous. In 1978, the U.S. consumed nearly 19 million barrels of crude oil per day. Of this amount nearly 8 million, or 43 percent, were imported, mainly from OPEC countries. In 1978 the National Security Council ordered a review of U.S.-Mexican relations, known in policy circles as Presidential Review Memorandum (PRM) 41. A preliminary draft began with the statement that Mexico is emerging as "an economic power of strategic value to the United States," subsequently quoting CIA sources as suggesting that Mexican petroleum production might reach as

much as ten MBD by 1990. "For the United States," the draft continues, "Mexico represents a major new energy source, presently outside OPEC. Mexico could fill 30 percent of U.S. import needs by the mid-1980's, thus enhancing security of supply."⁹³

In August 1977, a "Memorandum of Intentions" was signed between Petroleos Mexicanos and six gas transmission firms in the United States. The deal never materialized because U.S. negotiators maintained very rigid positions against Mexican demands regarding the base price per cubic foot asked by the Mexican government, and so the negotiations were discontinued. As a result, it was not until 1979 that the Mexican and U.S. governments came to agreement on a price of \$3.63 per tcf, for up to 300 million of cubic feet per day. The price was more than one dollar above the original 1977 proposal, but at last opened a new and secure source of gas for the U.S.

It is important to note that important sectors of U.S. public opinion were favorable to Mexico in the gas negotiations. This is deduced from articles and editorials appearing in such noted periodicals as The Wall Street Journal and The Washington Post. As an example, with respect to the gas situation, The Post wrote:

It is understood why the Department of Energy is fighting to maintain the low priced Mexican fuel. But the time has come to buy it. The U.S. has a major interest in stable development of the Mexican economy and can contribute to it by granting Mexico access to the North American market for

its products. A successful transaction of sale of gas between Mexico and the U.S. promises political benefits to both countries.⁹⁴

Regardless of the difficulties in gas negotiations during 1977, denunciations by U.S. policymakers on price increases and the fact that Mexico's stated oil production goals are too slow for the United States, the bottom line is the U.S. needs a reliable source. Mexico's large petroleum reserves are expected by many to make a dramatic difference for U.S. energy security during the next several decades. Its exports offer relief from the threat of embargoes and other forms of political blackmail that rely on the oil weapon.

1. Oil and Mexican Nationalism

Through Mexican eyes, petroleum and PEMEX represent realities of extraordinary Mexican nationalism. Since 1938, petroleum and PEMEX have symbolized the essences of nationalism: national dignity, economic independence, and state sovereignty.⁹⁵ It is a symbol of dignity and pride because its achievements prove that Mexico can succeed despite obstacles and expectations of failure.

Formulation of policy choices are sometimes constrained by these powerful symbolic concepts. Throughout public debates, issues involving the United States are frequently interpreted more in terms of risks for Mexico's sovereignty and freedom of action than in terms of the possible benefits for Mexico's economic growth, which is

where the U.S. usually puts its emphasis. In this context, sovereignty takes priority over development. Economists within Mexico have conducted extensive detailed analysis of the effects of Mexico's petroleum development and revenue earnings on very practical issues such as the inflation rate, excess liquidity, the balance of payments and the overall "absorptive capacity" of Mexico's economy.⁹⁶ The stakes are highly political, and for many nationalists these stakes are just as crucial as inflation rates and unemployment levels.

According to extreme interpretations of the traditional principles of Mexican nationalism, zero petroleum exports would be the best policy. Mexico's oil policies have remained consistent with nationalist views and call for domestic consumption first and no more than 49 percent of total hydrocarbon production to be exported.⁹⁷ The debate within Mexico make it clear that the ultimate stakes include those fundamental principles mentioned earlier. This is evident not only in petroleum export issues but also in such concerns as trade relations, border relations and any other development program in which we suggest any action. These traditional and nationalistic principles are evident in Mexico's negotiations and rhetoric, for they discourage acceptance of ideas of interdependence and partnership, and develop mistrust and frustrations of its neighbors.

Fortunately, Mexican nationalism is not written into stone and is subject to change as Mexico's leaders respond to new situations.

C. REGIONAL CONCERNS

Central America is presently a deeply troubled area with the populus furnishing ready recruits for radical or revolutionary governments. Since the Cuban revolution in 1959, the Soviet Union has continuously been seeking opportunities directly or indirectly, in the Western Hemisphere presenting difficult problems for the United States.

The basic misfortune of the area is that its countries are small, weak and poor. They are economically dependent to a high degree with rapidly growing populations and a sparse industrial development. Unequal distribution, oppressive governments, misery, unemployment and the control of power within the elite, has raised the potential of discontent over the years to an alarming point. Under these conditions, extremism flourishes and bullets are seen as the only solution to changing the status quo. Politics is strongly ideological and opposing parties do not understand the virtues of compromise. The parties of discontent are committed to radical change which makes them inevitably anti-American because the United States has generally supported stability and the status quo. Almost continuously since the 1979 Sandinistas revolution in Nicaragua, a terrorist and guerrilla threat to Central America seems to occupy most of the political and diplomatic mid-night oil burning of the United States.

Regardless of this fact the United States cannot afford to neglect the area, as it has in the past, or to permit

anti-American movements to continue advancing. There may not be strong economic, cultural or historical ties, aside from the fact that since the Monroe Doctrine Latin America has been considered to be in the U.S. sphere of influence, and perhaps there is not much to gain. But, more importantly what is there to lose? In the epoc of nuclear heyday, Central America has strategic importance, dominating the southern approaches to the waterway between the oceans, a troubled Mexico and leading right into our border with Mexico. Politically, any setback in the area would have devastating effects upon United States allies elsewhere.

Few subjects are of more importance for the United States and Mexico than the future of their bilateral relationship. Central America has become a key issue in the foreign policy of the United States and Mexico and has led to a reexamination of national priorities in both countries and additionally surfaced the possibility of tension between both neighbors.

United States support for the status quo in Central America inevitably causes friction with Mexico. This difference in orientation towards the developments in Central America stems from Mexico's own history. Having experienced its revolution in this century (1910-1917), Mexico tends to view revolution as a "last resort" in order to bring about needed social change.⁹⁸ From this stems the divergent perspectives of the U.S. and Mexico towards the continuous seething in Central America.

1. United States Perspectives

The Reagan administration's perception of the Central American crisis has been clearly stated, as the following examples by the former Secretary of State Alexander M. Haig, Jr., and the much acclaimed State Department "White Paper" on El Salvador testify:

In testimony before the House Foreign Affairs Committee in March 1981, former Secretary Haig argued that the insurgency in El Salvador was part of a "four-phased operation" of which the first phase was "the seizure of Nicaragua." "Next is El Salvador," he said, "to be followed by Honduras and Guatemala." When skeptical Congressmen inquired as to whether he was implying the domino theory, he replied: "I wouldn't call it necessarily a domino theory. I would call it a priority target list...a hit list if you will...for the ultimate takeover of Central America."⁹⁹

The controversial white paper on El Salvador issued in February 1981 argued that "the situation in El Salvador presents a striking familiar case of Soviet, Cuban, and other Communist military involvement in a politically troubled third world country." According to the State Department, "the insurgency in El Salvador has been progressively transformed into a textbook case of indirect armed aggression by Communist powers" whose objective in El Salvador as elsewhere "is to bring about the overthrow of the established government and the imposition of a communist regime in defiance of the will of the Salvadoran people."¹⁰⁰

Given the Reagan Administration's focus on East-West tensions, "regional security" has acquired new significance and has necessitated the strengthening of U.S. ties with friendly governments in the American Hemisphere. Central America is perceived as important in the global struggle for power with the Soviet Union, as evidenced by the administration's continued support for El Salvador.¹⁰¹

In this view, the renewed U.S. commitment to contain the expansion of Soviet power would be almost worthless if the United States could not contain such expansion in its own backyard.

2. Mexican Perspectives

The Reagan administration has consistently argued that Mexico is the final domino in the chain of falling dominoes set off by Cuban-Soviet subversion in Nicaragua. While the United States focuses on external factors presumed to dominate developments in Central America, Mexico views these developments as a response to the endemic problems of the region and rejects the U.S. cold war definition of the crisis.

Instead Mexico emphasizes the economic inequality, social injustice and political repression which has sparked broad based opposition movements in countries like Nicaragua, El Salvador and Guatemala. Mexican government spokesmen see the political conflicts in El Salvador and Nicaragua as residing in the failure of the Somoza regime and the current regime in El Salvador from facing the principal development problems, primarily those of unequal distribution.

The views from Mexico have not always opposed U.S. policies towards this area. For a long time, Mexican public opinion regarded the Salvadoran rebels as extreme left wing guerrillas. Two developments in 1980 changed this impression. One was the rapid deterioration of the government installed by the October 1979 coup in El Salvador, and the other was

the increasing support to rebel activities from different sectors of Salvadoran society.¹⁰² In the Mexican perspective, the political regimes in the region have been unable or unwilling to adapt to newly emergent social forces spawned by economic growth, increased trade, increased commercialization of agriculture, urbanization and so forth.

Mexican foreign policy has traditionally shown good will toward movements for social change in Latin America. Mexico had excellent relations with the reformist government of Colonel Jacobo Arbenz in Guatemala in the early 1950's; it was the only country that opposed sanctions on revolutionary Cuba in the early 1960's; and it enthusiastically backed the government of Salvador Allende in Chile. Two of the aforementioned cases terminated in United States intervention and the ousting of the country's leaders. The third, Cuba, has become a nightmare for the United States, providing the main focus of East-West tensions in the Western Hemisphere.

Former Mexican President Lopez Portillo frequently voiced his interpretation of the problem during his six year term (1976-1982). In April 1981 he drew an analogy between the U.S. explanation of the upheavals in Central America and the Soviet explanation of the upheavals in Poland. Both explanations emphasize "outside agitation." But such explanation, is in the words of Lopez Portillo, "an insult to intelligence." According to the former

president, "in our continent, social injustice is the true womb of unrest and revolutionary violence. The theory that foreign subversion is the origin to our ills is unacceptable to the democratic nations of our area."¹⁰³

Mexico has a long-standing non-intervention tradition, one that regards with considerable apprehension any action that might lead to intervention. Left leaning diplomacy helps to maintain Mexico's political stability and strengthens the government's power in dealing with the country's left-wing opposition. More importantly, in displaying independence from the United States, Mexico tends to obscure the growing interdependence of the Mexican and U.S. economies.

VI. CONCLUSION

Trade, petroleum and immigration issues between neighbors create a great web of problems and interests that often vibrate with tension. Some of these vibrations result from the history of relations between the two countries, especially as they recall slights or humiliations. National goals, molded by history, social structures, institutional aims, and nationalistic dreams, help determine international relations. Individual issues such as political orientation, economic development, petroleum and immigration are part of a net of calculation, but the accuracy of the calculation is not known until the future has become the present. Who could have dreamed in 1938 the roles that petroleum and immigration would play 45 years later in the relations between Mexico and the United States? The stakes in U.S.-Mexican relations are high, not only because of alarming numbers of illegal immigrants or the fact that Mexico has an enormous amount of proven hydrocarbon deposits (which may increase the possibility of U.S. energy security), but because a stable and prosperous Mexico is essential to the national security interests of the United States. The range and diversity of issues in their relations is probably greater than with any other country in the world.

We are experiencing a delicate moment for Mexico and the United States, and prospects for the future will depend

largely on what the U.S. does now. The most important U.S.-Mexican issues will not be susceptible to any rapid solutions by negotiation, because what is good for one is not always good for the other and vice versa. The points of contention arise from social forces and economic trends largely outside the customary domain of foreign policy. All that pertains to Mexican-U.S. relations is bothered by Mexican nationalistic sensitivities. Mexican revolutionary ideology carries an omnipresent strain of anti-Yankeeism that pervades Mexican responses to the United States. Although relations between the two nations are basically rather good, a certain fragility is always present, implying a threat of serious disagreements and introducing a sense of unpredictability. Regardless of this very important fact, the intermingling of both societies, the sharing of a 2,000 mile border, and the pursuing of human needs on both sides of the border create an enduring relationship that will involve friction as well as interdependence.

Illegal immigration from Mexico into the U.S. has definitely become a blessing for the Mexican government (especially during these days of crisis), a benefit for some in the U.S., and an aggravating problem for U.S. Law. However, the stream of Mexicans crossing the border will never end as long as there exists such a wide gap in wage levels between the U.S. and Mexico and a need for unskilled workers in the U.S. The ideal solution would be for Mexico

to have the wealth and economy that the United States has. A stable, healthy economy with plenty of jobs and food is the only answer but yet seems so hard to achieve. In view of the long history and the powerful social/economic factors behind illegal immigration, no single act or set of actions by the U.S. will eliminate the problem. The problem is a direct result of the issues which link U.S.-Mexican relations. Trade issues, energy issues, and the problems of migration are dealt with as separate blocks, when in reality they are very much interrelated. They are very much linked, for the decrease in numbers of illegal immigrants from Mexico will depend on a healthy Mexican economy with job opportunities, and a healthy Mexican economy will depend on the opening of U.S. markets for the labor intensive Mexican exports.

The U.S. has on occasion emphasized an increase in Mexican oil production. An optimistic scenario for the use of oil income envisages export revenues and new capital flows sufficient to enable the massive foreign debt to be repaid, capital goods for the further development of hydrocarbons to be manufactured or imported, with enough left over to make massive investments in developmental projects that with time will reduce unemployment, arrest the flight from rural to urban areas and assist in reducing the glaring inequalities between those who live in comfort and those consigned to poverty. Increased oil production may accelerate formation of capital for job opportunities, but the export market

has to be there. If the markets are not available the temptation will be to continue spending oil revenues on imports and food staples from abroad, placing a lid on employment opportunities, frustrating Mexican economic growth, and pushing up migration. (In January of 1983 alone, the INS caught 83,811 aliens along the border-up 46% over the same time a year ago.¹⁰⁴) It is a vicious circle where as former Mexican President Lopez Portillo once said, "Everything Is Part of Everything Else." The problem simply cannot be solved until such time as the Mexican economy is capable of providing for the country's citizens.

The key question is how long the people will endure the hardships of austerity programs before there is widespread public backlash. Prices for food, clothing, gasoline and other basic goods keep soaring. Wages lag and construction is slow. In Mexico the government is the force behind development, and if austerity programs directed by the IMF agreement mean cuts, then the end result is the slowing of the economy with high unemployment, poor living conditions for the majority and malnutrition for the poor.

Several key indicators of a troubled nation that could eventually light up like a match causing a revolution, are present: a large population of 73 million of which 40%-50% are unemployed or underemployed; an inflation rate funning at about 100%; a high exchange rate; an external debt of over \$80 billion; income inequality and a wide gap

between the poor and the rich. Although Mexican political leaders consider the left to be no real threat to the established order in Mexico, during times of serious stress this could change rapidly. The problems of unemployment and extensive poverty have grown so rapidly, that the continued neglect by those with decision-making powers becomes an increasingly dangerous political game. If the government addresses these problems only as a matter of rhetoric, the potential for political violence in Mexico may easily build.

The problem of world hunger in relation to national security may seem a far cry from seeds, soil, and proteins. By habit we think of national security in terms of military forces and their capabilities to defend from an aggressor attack, which may lead to mass destruction of our people, territory and way of life. But another aspect of national security entails the ability to live in peace, not only from military aggression, but also from non-military dangers which may disintegrate the best of systems and drag a nation over the fateful threshold between a state of peace and a state of internal unrest and even war.

Current trends and developments in world affairs have created a dramatic intensification of threats that can reach across boundaries threatening our capacity to live in total security. Threats from over population of the globe, hunger, to even the air that we breathe. The world food situation is in decline and will continue to deteriorate throughout the remainder of the century as population pressures are

felt and the amount of deforested non-usable arable land continues to rise.¹⁰⁵ Mexico is experiencing both of these evils, and although the technology exists to counter such threats, many developing nations are unable to implement productivity increases (partly because of political constraints) which therefore result in scarcity of food causing much higher prices and Mexico's balance of payments to deteriorate drastically.

Agriculture has become a weak link in Mexico whereby food imports have been using up a substantial amount of petroleum revenues to feed the nation. Although Mexico is reluctant to accept suggestions from the U.S., it is in U.S. national security interests to turn this trend around and encourage the continuation of those measures included in their Mexican Food System and Plan Global de Desarrollo 1980-82.

During the next two decades we must focus more attention on our own backyard. We must emphasize political alliances, economic cooperation, expanded military interaction to foster stability and enhance the economic development of those countries in need. Mexico should be encouraged to pursue a much larger leadership role in establishing initiatives with other Latin American countries to which they can relate.

The importance of the bilateral relationship between the U.S. and Mexico is undeniable. The geographic location, economic development and political significance of Mexico

have contributed over the years, to a complex set of inter-relationships between both societies. However, to this date the United States and Mexico have basically "agreed to disagree," on key issues such as liberalization of trade and solutions to the problems within Central America.

Despite the actual and potential costs to Mexico of policies that restrict free trade, there is little likelihood that Mexico would agree to liberalize its trade policies significantly as part of a special relationship with the U.S. As the decision to postpone entry into the GATT showed, Mexico still feels vulnerable to foreign competition and continues to resist agreements that may remove economic decisions from government control. In regards to Central America, to date neither nation has had to face a crisis in their relationship stemming from their foreign policy differences regarding that area. It is apparent that how each nation chooses to deal with Central America may have devastating effects on bilateral relationships, and make it difficult if not impossible for them to be forthcoming and cooperative with each other.

Mexico's analysis of both the problem and the solution in Central America is shaped by events in its recent past. The political elite that governs Mexico today came to power in the aftermath of the Revolution of 1910 which began as a rebellion against the dictatorship of Porfirio Diaz. In view of this revolutionary heritage, it becomes very difficult

for Mexico's leaders to align themselves at least publicly, against revolutionary movements, particularly when these aim to oust repressive dictatorships. This stand by the Mexican government has been repeatedly consistent including opposition to the ousting of Jacobo Arbenz Guzman from Guatemala in 1954; refusal to accept sanctions against Cuba in 1960; opposition to a peace keeping force in the Dominican Republic in 1965; and recognition of the Sandinista government in 1979. Furthermore Mexico claims as one of the great achievements of the revolution, the establishment of a civilian dominated political system in which the professional military is subservient to the elected officials. Any policy that would reinforce military rule in other countries runs the risk of enhancing the legitimacy of military rule in Mexico.

Revolutions in Central America have resulted for the same reasons that existed long before the United States or the Soviet Union came into being. The lands of Central and South America and Mexico were not only discovered and colonialized, but they were also conquered, and conquest plus colonization spells what Max Weber called patrimonialism, a condition brought on by the confusion of all public and private rights in favor of the chieftain and his clan of relatives, sycophants, and hangers on.¹⁰⁶

Since independence from Spain (received by most Latin Americans in the early 1800's), these traditional patrimonial functions, have been the style of governance in Latin America.

If there is outside interference in the area, such interference is not the prime mover in the regions conflicts. Rather, it exploits a situation whose underlying causes reside in economic and social inequalities accompanied by political indifference and ruthless military suppression of dissidence. The solutions to the problems lie in political rather than military measures and must come from within. It is therefore important to note that in terms of U.S.-Latin American relations, Mexico clearly identifies with the dependent, vulnerable and long-suffering Latin American countries against brutal and repressive regimes.

Several countries of Latin America have experienced the problems of revolution, dictatorships and military regimes and many have opted for governments amenable to the populus. The United States should seek recommendations from these nations in hope of finding a negotiable solution to the misery, inequality, oppression and overall chaos. These developing nations should not be placed in a position to choose between the United States and Soviet Union, and that is exactly where the U.S. is placing its emphasis by continuing support to governments who have flagrantly violated every rule on earth. Mexico knows clearly what it does not want to see in Central America: intervention on the part of any external power. What is not clear is how Mexico can incorporate its historic support for non-intervention into a foreign policy capable of promoting its own national

interests in light of the ongoing domestic economic crisis and an increasing refugee problem causing concern along its southern border.

A solution for Central America must be found now, before increased suffering and chaos reaches uncontrollable heights. If the United States wants to continue playing an active part in the Western Hemisphere, then it should use the necessary leverage to get to the root of the problem, and that could entail economic sanctions against countries held responsible for external support to the Salvadoran guerrillas, or continue undermining governments whose thinking is not completely democratic, or demanding that each side in the struggles of El Salvador face each other in negotiations. These countries contain worthy people, both uniformed and civilian. They also contain some of the most brutally repressive military on the face of the earth. Both sides in El Salvador are guilty of undue violence, and both sides contain extremist elements which cannot be assimilated. The problem throughout the region now is just as it has been since the atrocities committed by Spanish Conquistadores almost five hundred years ago.

U.S. policy towards Latin America has always been lacking, and have been considered important only during times of crisis or U.S. needs. We cannot preach freedom for all, a commitment to self-determination, stability and democracy, if we continue avoiding the truth concerning the root of

the problem. A leader of Mexico's leftist opposition, Rafael Fernandez, puts the challenge in compelling terms regarding Mexico, but which translates to the rest of the region:

For a long time, the United States never thought about us. Now you're worried about oil. You would do a little better to worry about the whole country or one day you could have a surprise. It may not happen for 10 or 20 years. But the day that Mexico catches on fire because people do not have enough food, part of the United States will burn. This will be your last VIETNAM.

This vision may be a bit far-fetched, but the reality is that today Mexico is undergoing hard economic times and suffering social strains, and a continuation of our policies in the region will only serve to irritate the problem.

These considerations and the underlying realities of the bilateral relationship lead to the conclusion that if a political negotiation is to be sought in Central America, then Mexico should be encouraged to propose alternatives and take the lead in an area it very well understands. The United States easily forgets its past and the fact that it came about from a revolution. A military solution and the continuation of the status quo is not the answer to the seething in Central America. If U.S. administrations expect the Mexican leadership to act differently towards U.S. policies then they should be willing to make equal changes in their own behavior towards Mexican policies.

Notwithstanding these obstacles, it seems highly desirable for the U.S. to recognize and pursue through initiative,

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REPUBLIC OF MEXICO(U) NAVAL POSTGRADUATE SCHOOL
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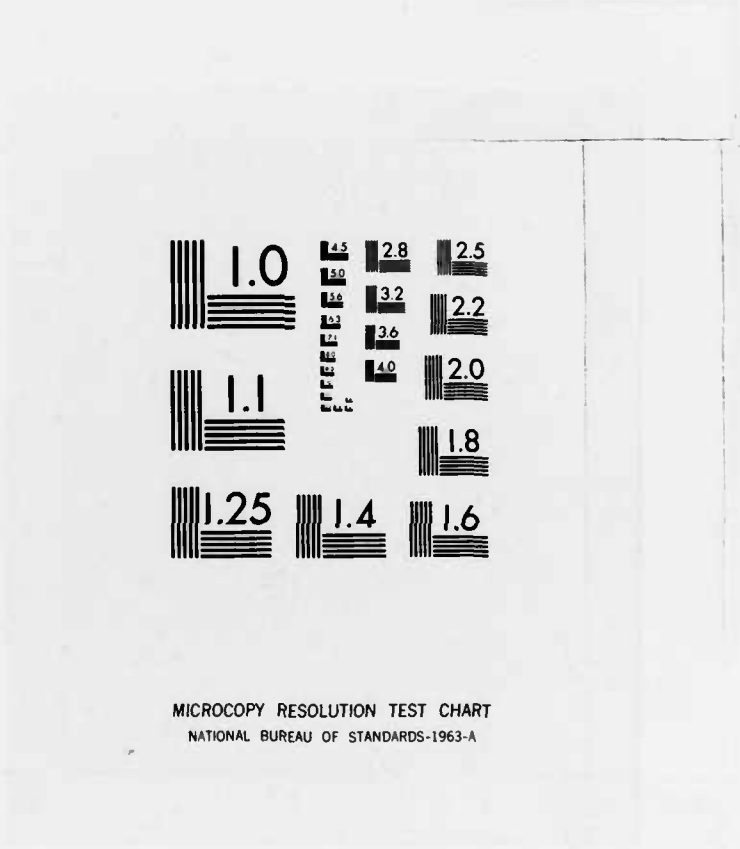
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MICROCOPY RESOLUTION TEST CHART
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consultation and perseverance, the linkage of multiple issues in United States-Mexican relations. Mexico's development problems cannot be left unattended, for, as they gain in intensity, they multiply in number. Urbanization and unemployment have had a direct effect on crime in some Mexican cities, added to the concentration of people in urban areas which leads to increasing levels of awareness concerning the conditions of Mexican life; poverty, hunger, marginality and disparity are all accentuated. As time goes on Mexico's urban centers will become even more crowded with an estimated population of 31 million for Mexico City by the year 2,000. If Mexico's capital city gets that large without tearing itself apart, the problems of food supply, disposal waste, sanitation, police, water and human relationships would be insoluble.

Upon taking office, President Miguel de la Madrid adopted a "shock treatment" policy of telling the Mexican populus the truth about their economic problems as a way of asking for their assistance. The President ordered anticorruption measures, and a controller's office was set up to prevent public officials from enriching themselves while in office. Police have been reorganized in an attempt to eliminate the practice of demanding bribes. These changes may only be significant if the government is serious and willing to define the problems and formulate and implement policies and programs that seek to alleviate the present dilemma. If the government responds as predicted, the next generations of

Mexicans may fare much better. If not, Mexico's transformation may not follow any official guidelines, but rather come at the expense of serious upheaval, possibly revolution.

The United States needs to face the unpalatable fact that the immigration problem alone is not solvable without U.S. investment in the Mexican economy, unless it thinks it can afford a wall. Instead of dealing with immigration as part of an overall immigration policy, or dealing with natural gas pricing as part of its energy plans, the U.S. should consider them as necessary components of a Mexican Policy. Mexico is not able to escape from dependence to a degree, regardless of how much nationalism is embedded in their political decision-making. But neither can the U.S. escape from interdependence. The relationship is organic. The two countries are sufficiently linked economically and socially that the U.S. government seems reluctant to use many potential levers against Mexico. In reality many punitive, unilateral decisions or discriminatory options can arouse domestic repercussions, as well as run against U.S. concern to preserve stability in Mexico. The two cultures along the border have grown so intertwined that they are often indistinguishable. These constraints indicate that the U.S. actually lacks instruments to hurt Mexico without also harming its own interests. Any assessment by U.S. politicians should recognize the interconnections among issues in the relationship.

Both nations need each other. The U.S. needs a cheap labor force, a reliable energy source and a stable neighbor aside from the fact that Mexico is its third largest trading partner. And Mexico needs U.S. trade, credit, tourism and United States security which, although not mentioned at all, is bascially taken for granted based on a fairly small and ill-equipped Mexican Armed Force.

Regardless of the fact that the United States and Mexico voice different opinions and take different positions on regional and bilateral issues, they share a basic commitment to self determination, democracy, stability and peaceful political resolution of conflicts. There is no country more important in terms of across-the-board, across the border impact on peoples lives. The United States should not treat Mexico as just another country, but must continuously consult with the Mexican government on issues that affect both nations and attempt to find solutions compatible to both nations. Those in the business of making decisions must learn to appreciate Mexican culture, attitudes and their decentralized political system before making insulting comments about Mexican political decision-making. Mexico cannot continue to be treated like just another developing country. It's too big, too close and too important.

APPENDIX A

1973 LAW TO PROMOTE MEXICAN INVESTMENT AND TO REGULATE FOREIGN INVESTMENT

ARTICLE 3. Foreigners who acquire property of any kind within the Mexican Republic by so doing agree to be treated as Mexican nationals regarding the said property and not to invoke the protection of their own Government in this respect, under penalty in case of default, of losing to the Mexican nation the property they may have acquired.

ARTICLE 4. The following activities are reserved exclusively for the State:

- a) Petroleum and other hydrocarbons
- b) Basic petrochemicals
- c) Exploitation of radio-active minerals and the generation of nuclear energy
- d) Mining in those cases to which the law on that subject refers
- e) Electricity
- f) Railways
- g) Telegraphic and radio-telegraphic communications and
- h) All others as established by specific laws.

The following activities are reserved exclusively for Mexicans or for Mexican companies which exclude foreigners:

- a) Radio and television
- b) Automotive transportation, whether urban, interurban or on Federal highways
- c) National air and sea transportation
- d) Forestry exploitation
- e) Gas distribution and
- f) All others as set out by the specific laws or by the rules issued by the Federal Executive.

ARTICLE 5. In the following activities or companies, foreign investment in the capital will be permitted in the proportions indicated:

- a) Exploitation and utilization of mineral substances:
Concessions may not be granted or assigned to foreign individuals or companies. In companies devoted to this activity, foreign investment may take part up to a maximum of 49% where the exploitation and utilization of substances subject to ordinary concessions are concerned and up to a maximum of 34% where special concessions for the exploitation of national mineral reserves are concerned.

- b) By-products of the petrochemical industry: 40%
- c) The manufacture of components for automotive vehicles: 40% and
- d) Those indicated by specific laws or rules issued by the Federal Executive.

In cases where the legal dispositions or rules do not stipulate a certain percentage, foreign investment may participate in a proportion not exceeding 49% of the companies' capital, provided that foreigners do not have the right in any capacity to manage the company.

The National Foreign Investment Commission may pass decisions on the increase or reduction of the percentage to which the preceding paragraph refers, when in their opinion it is advantageous for the economy of this country, and they may set the conditions according to which foreign capital will be admitted, in specific cases.

The participation of foreign investment in the administration agencies of the company may not exceed its participation in the capital.

When there are laws or legal rules in existence for a certain line of activity, foreign investment must be adjusted to the percentage and conditions indicated in the said laws or rules.

ARTICLE 12. The National Foreign Investment Commission shall be empowered as follows:

I. To decide according to Article 5 of this law, on the increase or reduction of the percentage of foreign investment which may take part in the different geographical areas or different fields of economic activity in the country when there are no existing legal dispositions or rules to set the percentage or to determine the conditions under which the said investment may be received.

II. To decide upon the percentage and conditions according to which foreign investment may be admitted in those certain cases which, because of the special circumstances under which they fall, merit special treatment.

III. To decide on the foreign investment permissible in companies already established in Mexico or in those which are new.

IV. To decide on the proportion of existing foreign investment in Mexico to be admitted in new fields of economic investment or in new production lines.

V. To be a compulsory consultation agency on matters of foreign investment for the departments of the Federal Executive, decentralized agencies, companies with state participation, trust institutions of the trusteeships established by the Federal Government or by the state governments and for the National Securities Commission.

VI. To establish the criteria and requisites for the application of the legal dispositions and rules on foreign investment.

VII. To coordinate the activities of the departments of the Federal Executive, decentralized agencies and companies with state participation for the fulfillment of their functions in matters of foreign investment.

VIII. To submit for the consideration of the Federal Executive planned legislation and rules as well as administrative measures on matters of foreign investment.

IX. All others as authorized by this law.

ARTICLE 13. In order to decide on the advantage of authorizing foreign investment and to determine the percentage and conditions under which it will be admitted, the Commission will take into consideration the following criteria and characteristics of the investment:

I. If it is complementary to national investment.

II. If it does not displace national companies now is it directed to fields of activity adequately covered by them.

III. If its effects on the balance of payments will be positive and in particular on the increase in exports.

IV. Its effects on employment, the level of employment it will generate and how much the labourers will be paid.

V. The employment and training of Mexican technicians and administrative personnel.

VI. The utilization of Mexican products and parts in the manufacture of its products.

VII. The proportion in which its operations are financed with resources from abroad.

VIII. The diversification of investment sources and the need to stimulate regional and subregional integration in the Latin American area.

IX. Its contribution to the progress of zones and regions of relatively slower economic development.

X. If it will not occupy a monopolist position in the national market.

XI. The capital structure of the field of economic activity under consideration.

XII. Its technological contribution and its share in the research and technological development of this country.

XIII. Its effects on price levels and production quality.

XIV. If it will maintain the social and cultural values of this country.

XV. The importance of the activity under consideration, within the national economy.

XVI. The foreign investor's identification with the interests of this country and his connections with centers of economic decision abroad.

XVII. The extent to which, in general, it contributes to the achievement of and supports the policy of national development.

SOURCE: Banco Nacional de Comercio Exterior, English translation of the law published in the Diario Oficial, March 9, 1973; effective May 9, 1973.

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⁴⁸Peter H. Smith, Mexico: Quest for U.S. Policy.

⁴⁹George W. Grayson, "Oil and Politics in Mexico."

⁵⁰Richard D. Erb, Stanely R. Ross, United States Relations with Mexico, Context and Content.

⁵¹Robert E. Looney, Developmental Alternatives of Mexico, Beyond the 1980's, Praeger, 1982, p.

⁵²The text of Diaz Serrano's report appears in "Petroleos Mexicanos: Activities in 1980," Comercio Exterior de Mexico, April 1981, pp. 134-142.

⁵³William A. Orme Jr., "Mexico Prepares New Energy Plan," Journal of Commerce Special, Latin America, February 1983.

⁵⁴The official name of the Mexican Republic.

⁵⁵Business Study Mexico, Touche Press International, 1979, p. 13.

⁵⁶Van R. Whiting, Jr., "State Intervention In The Mexican Economy: The Regulation of Foreign Direct Investment and Technology Transfer," U.S.-Mexico Project Series No. 11, Overseas Development Council, 1982, p. 4.

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⁵⁸Ibid., p. 15.

⁵⁹Ibid., p. 9.

⁶⁰IBM obtained permission to put up a large plant at Guadalajara with 100 percent IBM ownership, in late 1974.

⁶¹Richard D. Erb, Stanley R. Ross, eds., United States Relations with Mexico, American Enterprise Institute, p. 155.

⁶²Andrew James Samet, Gary Clyde Hufbauer, "'Unfair' Trade Practices: A Mexican-American Drama," Overseas Development Council, U.S. Mexico Project Series #1, 1982, p. 25.

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⁶⁵John F.H. Purcell, Trade Conflicts and U.S. Mexican Relations, p. 27.

⁶⁶Ibid., p. 20.

⁶⁷Ibid., p. 35.

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